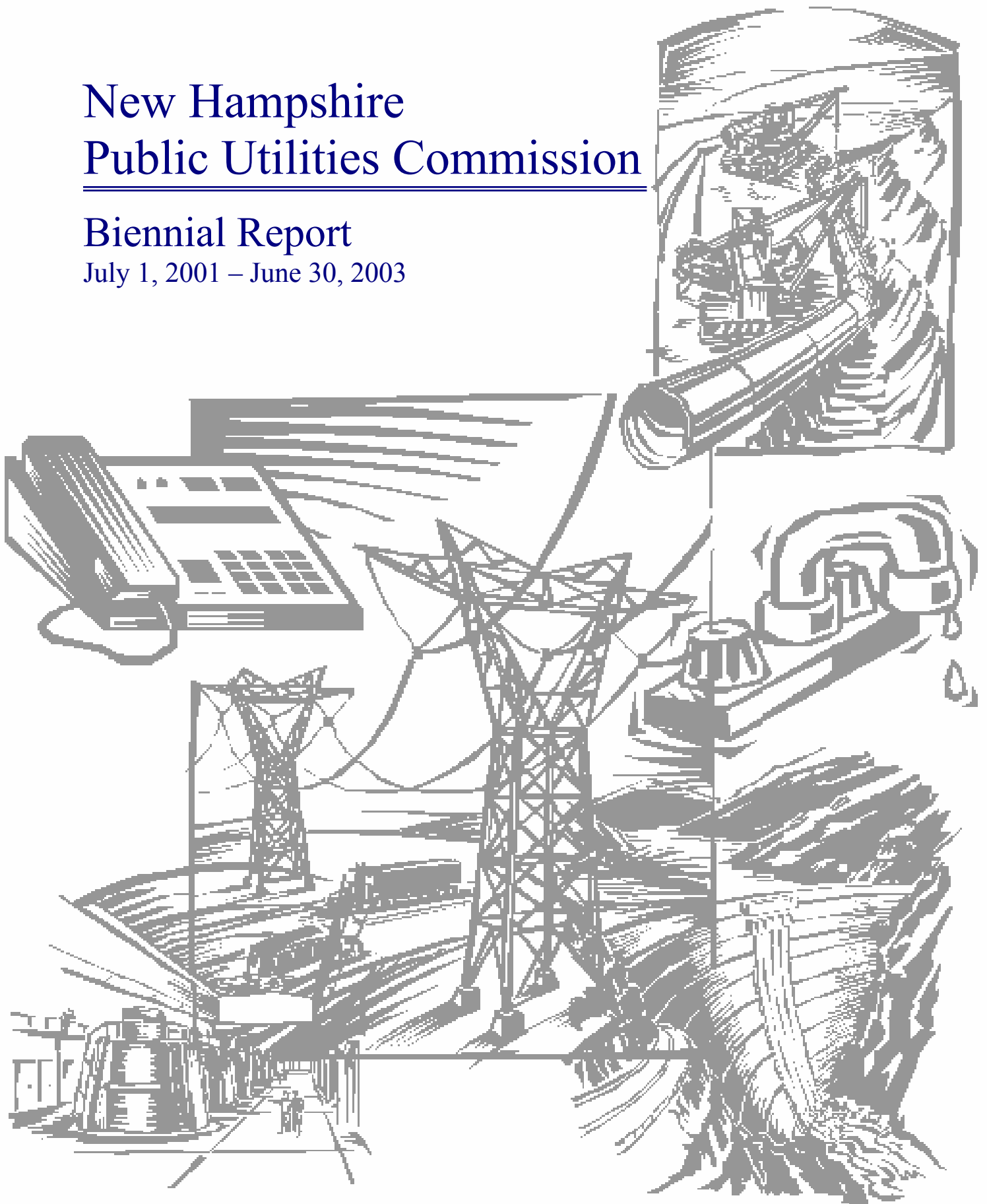


New Hampshire Public Utilities Commission

Biennial Report

July 1, 2001 – June 30, 2003



Craig Benson
Governor

Raymond S. Burton
Executive Councilor
District 1

Peter J. Spaulding
Executive Councilor
District 2

Ruth L. Griffin
Executive Councilor
District 3

Raymond J. Wieczorek
Executive Councilor
District 4

David K. Wheeler
Executive Councilor
District 5



MISSION

- To ensure that customers of regulated utilities receive safe, adequate and reliable service at just and reasonable rates.
- To foster competition where appropriate.
- To provide necessary customer protection.
- To provide a thorough but efficient regulatory process that is fair, open and innovative.
- To perform our responsibilities ethically and professionally in a challenging and supportive work environment.



His Excellency Governor Craig Benson
And The Honorable Executive Council:

The one constant in the regulatory world in the past decade has been change. Externally, change has occurred in the industries we regulate as a result of legislative and market forces, which have resulted in the restructuring and deregulation, to various extents, of electric, gas and telecommunications utilities. Internally, change has occurred in the Public Utilities Commission in the past biennium as a result of our continuing efforts to find ways to do our job better.

During the past two years, we have made important structural, cultural and technological changes designed to improve our performance. As discussed in more detail below: we have changed the structure of the Commission by reorganizing our divisions based on the industries we regulate, as opposed to the professions of staff members; we have focused energy on creating a culture of timeliness; and we have adopted new technologies by revamping our website, designing and implementing an integrated case management system, and planning the installation of an electronic filing protocol.

Historically, the Commission was organized by profession, with engineering, finance and economics divisions. As a matter of organizational design, this structure diffused responsibility and led to a lack of accountability because individual directors did not have the authority to ensure that cases were proceeding efficiently. By switching to electric, telecommunications, and gas and water divisions, we now have a director who is accountable for all the cases in a particular industry and who has the authority to deploy resources in the most effective way.

The inherent tension in an adjudicative agency between acting deliberately and acting quickly requires a delicate balancing. Our goal is to create a culture of timeliness in which every employee understands both the policy importance of getting the decision right for the long term and the reality that our decisions affect real parties in the short term. As legendary UCLA basketball coach John Wooden put it, "Be quick, but don't hurry." We are pursuing this goal by, among other things, adopting specific performance measures, eliminating certain reports and allowing the electronic filing of other reports, and conducting regular training for managers. One important set of measures we have adopted looks at the time it takes to issue orders of notice, procedural orders and final orders. We have set target deadlines by which 80%, 90% and 95% of the orders in a category should be issued and have created a program to track performance, effective July 1, 2003. With respect to reports, we executed a comprehensive work plan that inventoried all reporting requirements, determined which could be eliminated, and provides for electronic filing. In terms of training, one effort we have initiated is a monthly lunchtime training session with managers highlighting a specific management topic.

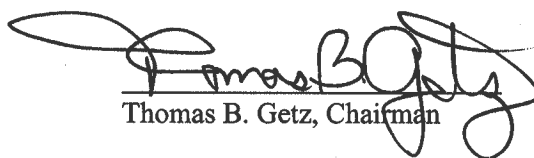
In today's management environment, structural, cultural and technological changes are inextricably interwoven. In order to more efficiently perform our duties we have sought to improve our technological systems. We have made the transition to a full Microsoft environment to assure compatibility with our constituents and other agencies. Two staff members designed and wrote an

integrated case management program that gives managers the ability to instantly review the status of every case. Several other staff members revamped our website early in 2003 and we are merging those efforts with the new templates recently made available to all executive agencies by the Office of Information Technology. Furthermore, we are preparing to expand our electronic filing capabilities, which now extend to consumer complaints, filing of certain reports and distribution of discovery materials, to also include case documents such as petitions, motions, testimony and briefs.

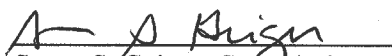
In the past biennium, we have also had to face the stark reality of responsibilities which were brought to all our attention on September 11, 2001. The Commission has coordinated its response to the potential of terrorist attacks through its participation in the Advisory Council on Emergency Preparedness and Security created by RSA 21-P:48. To manage the Commission's involvement in these issues, we created a security team composed for the most part of engineers with expertise in each of the industries we regulate and headed by the Director of our Gas Safety Division. The mission of this team is twofold: to provide technical expertise to the Bureau of Emergency Management and to act as a liaison between state government and the public utilities. The Commission's security team has been praised by representatives of the Department of Safety and the Department of Justice for the team's role in developing an emergency support planning template that will be used statewide as part of a national pilot project.

Change is pervasive and persistent and the challenge we have taken up is to anticipate, monitor and adapt to change in the way that best serves the public interest. Whether it is through application of Jim Collins' dictum in *Good to Great* that disciplined people, disciplined thought and disciplined action lead to great performance, or Larry Bossidy's observation in *Execution: the Discipline of Getting Things Done* that leaders should always be looking to improve results by introducing new initiatives, the core message is the same — that constant vigilance and continuous effort are endemic to successful management. We believe these lessons from the world of business management can be applied to government and we intend to make them a cornerstone of our efforts in the next biennium and beyond.

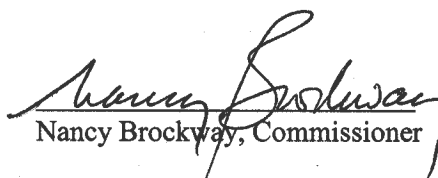
Respectfully submitted,



Thomas B. Getz, Chairman



Susan S. Geiger, Commissioner



Nancy Brockway, Commissioner

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HISTORY

The New Hampshire Public Utilities Commission has its origins in an 1838 statute that provided for appointment of commissioners in each New Hampshire County having limited powers regarding railroads. This was the first attempt by any state to regulate transportation. The County boards were consolidated into a State Board of Railroad Commissioners in 1844, the first such board in the nation.

In 1911, the New Hampshire Legislature enacted comprehensive legislation which instituted a new system for the establishment and regulation of public utilities and railroads in the state. As a result, the Public Service Commission was created as a state tribunal and given broad supervisory and regulatory powers over public utilities. The name Public Service Commission was changed in 1951 to Public Utilities Commission, its present title. In 1979, the Legislature made the commissioners full-time positions and generally amended the structure and guidelines of the Commission.

On June 26, 1985, Governor John Sununu established the Department of Transportation (DOT) to which the Commission's transportation functions were transferred. The statutory definition of public utility in RSA 362:2 was changed to exclude railroads, passenger carriers, toll bridges, toll roads, carriers of household goods for hire by motor vehicle and motor vehicles carrying property for hire.

Various amendments to RSA 363 in the 1980s removed the Office of the Consumer Advocate (OCA) from the direct control of the Commission, and made it independent of the Commission except for shared use of business office and support functions.

In 1996, the legislature enacted RSA 374-F which initiated the restructuring of the electric utility industry in New Hampshire. The goal of restructuring was to reduce cost and harness the power of a competitive world by introducing customer choice to the generation segment of the electric industry.



COMMISSIONERS

The three New Hampshire Public Utilities Commissioners are appointed for six year terms by the Governor subject to Executive Council approval. The Commissioners' terms are staggered so that one term expires every odd numbered year. The Governor, with Executive Council approval, appoints one of the Commissioners chairman. One Commissioner must be an attorney and at least one of the remaining Commissioners must have experience in engineering, economics, accounting or finance.

THOMAS B. GETZ

Chairman

Thomas B. Getz was appointed Chairman on October 11, 2001. He has worked in the utility arena for more than twenty years. During that time, he was a Research Fellow for the Energy Law Institute, Special Assistant to the New York Public Service Commission, Intervenor Attorney for the New York Consumer Protection Board, Corporate Counsel for Public Service Company of New Hampshire, and Executive Director of the New Hampshire Public Utilities Commission.

Chairman Getz graduated from Holy Cross College with a BA in Political Science and he holds a Juris Doctor degree from the Franklin Pierce Law Center as well as an MPA from the University of New Hampshire. In addition, he served in the US Army as an Interrogator and Linguist for Military Intelligence.

In addition to his duties as Chairman of the Commission, he serves as Chairman of the Nuclear Decommissioning Finance Committee and Vice-Chair of the Site Evaluation Committee. He is also a member of the Telecommunications Planning and Development Advisory Committee and the Advisory Council on Emergency Preparedness and Security.

Chairman Getz is a resident of Manchester and has long been active in civic

organizations. Among other things, he served on the Manchester Planning Board and the Board of Directors of the Alliance for the Progress of Hispanic Americans. He is a member of the Leadership New Hampshire Class of 1998 and he received the Better Government Award from the Josiah Bartlett Center for Public Policy in 1999.

SUSAN S. GEIGER

Commissioner

Susan S. Geiger was appointed to the Commission by Governor Stephen Merrill in December, 1993 and reappointed by Governor Shaheen in October, 2001. From January 1993 to the time of her appointment, Commissioner Geiger served as Chief of Staff and Senior Assistant Attorney General in the New Hampshire Department of Justice where she had been employed since July, 1985. Before joining the Attorney General's Office, Commissioner Geiger was a Legal and Legislative Consultant for the N.H. Division of Welfare from March 1982 to July 1985. She was also engaged in the private practice of law from 1980 to 1981.

Commissioner Geiger received her Juris Doctor degree from Suffolk University in 1980 and her BA from Mount Holyoke College. She is a past President of the New England Conference of Public Utilities Commissioners and currently serves on NARUC's (National Association of Regulatory Utility

Commissioners) Board of Directors and Water Committee and is a member of the Bar in New Hampshire and Massachusetts. Her term expires June 30, 2005.

NANCY BROCKWAY

Commissioner

Nancy Brockway was appointed to the Commission by Governor Jeanne Shaheen in October, 1998.

From 1991 until the time of her appointment, Commissioner Brockway worked as a consultant and advocate on low-income energy and utility issues at the National Consumer Law Center (NCLC) in Boston, Massachusetts. Before joining the NCLC, Commissioner Brockway worked as General Counsel at the Massachusetts Department of Public Utilities where she was employed from 1986-1991. Prior to her move to the Massachusetts Department of Public Utilities, Commissioner Brockway worked as an Advocate and Hearings Examiner at the Maine

Public Utilities Commission from 1983-1986. And from 1974-1986 she provided legal services in a variety of settings, representing low-income tenants, university students, juveniles, elders, and others in a wide range of civil legal matters, including cases on access to housing and utility services.

Commissioner Brockway received her B.A. cum laude from Smith College in 1970 and earned her Juris Doctor degree from Yale Law School in 1973. She currently serves on NARUC's Consumer Affairs and Telecommunications Committees. She is a member of ISO (Independent System Operator) New England Advisory Committee and the Joint Conference on Accounting of the Federal Communications Commission. She has served on the National Council on Competition in the Electric Industry, and the North American Numbering Council of the Federal Communications Commission among other responsibilities. She is a member of the Bar in New York, Massachusetts and Maine. Her term ended June 30, 2003, and she is holding over pending installation of her successor.

COMMITTEES

Site Evaluation Committee

The Commissioners and an engineer designated by the Commission, pursuant to RSA 162-H, are also members of the Site Evaluation Committee (SEC). The Commission Chairman is Vice-Chair of the SEC. The purpose of the SEC is to determine the terms and conditions of any certificate issued for the construction and operation of energy and bulk power supply facilities.

Nuclear Decommissioning Financing Committee

The Chairman of the Commission is also a member of the Nuclear Decommissioning Financing Committee (NDFC), pursuant to RSA 162-F. The NDFC is charged with determining the projected costs of nuclear decommissioning.

Advisory Council On Emergency Preparedness And Security

Under RSA 21-P:48, the Chairman is a member of the Advisory Council on Emergency Preparedness and Security. The Council advises the Governor on issues relating to the state's ability to respond to natural and man-made disasters, and the preparation and maintenance of a state disaster plan.

Telecommunications Planning And Development Advisory Committee

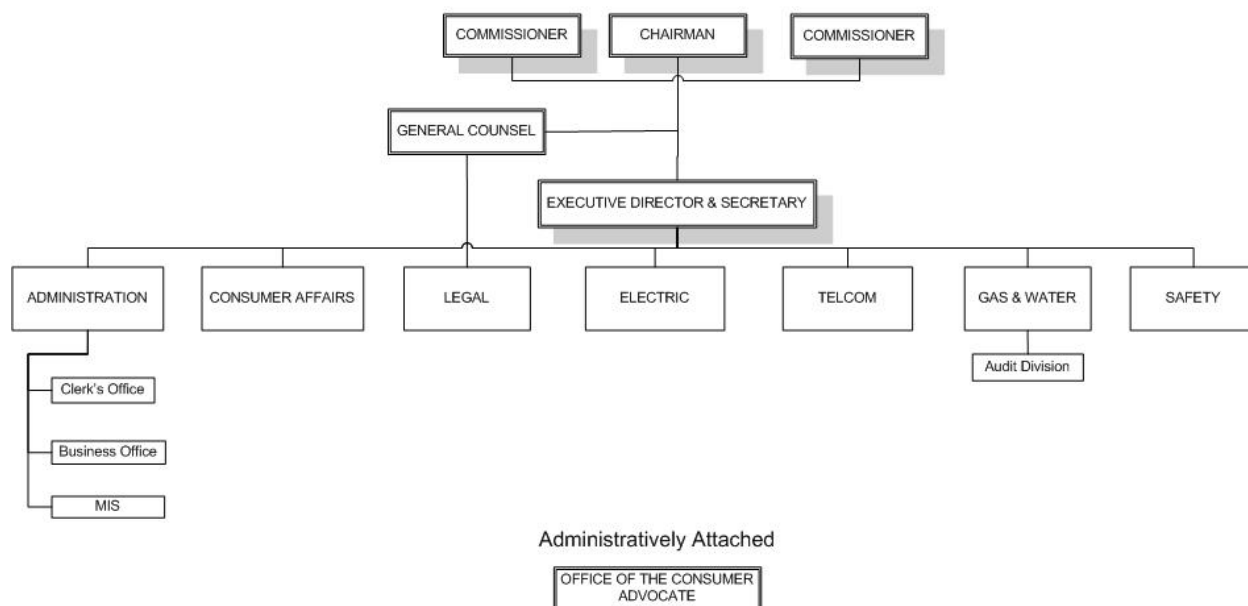
The Chairman of the Commission and the Director of the Telecommunications Division are members of the Telecommunications Planning and Development Advisory Committee created under RSA 12-A:46. The Advisory Committee works with other state agencies, including the Department of Revenue and Economic Development, to develop a state wide plan for telecommunications service.

Enhanced 911 Commission

The Chairman of the Commission or designee is a member of the Enhanced 911 (E911) Commission created by RSA 106-H:3. The Director of the Telecommunications Division has been designated. The E911 Commission is charged with maintaining a coordinated state wide enhanced 911 system to improve emergency communications and response time to emergency calls for law enforcement, fire, medical, rescue and other emergency services.

ORGANIZATIONAL CHART

PUBLIC UTILITIES COMMISSION



Administration

Debra A. Howland, *Executive Director and Secretary*
Michelle Caraway, *Assistant Executive Director*

Legal Division

Gary Epler, *General Counsel*

Consumer Affairs

Amanda O. Noonan, *Director*

Electric Division

Thomas C. Frantz, *Director*
Mary Coleman, *Assistant Director*

Telecommunications Division

Kathryn M. Bailey, P.E., *Director*
ChristiAne Mason, *Assistant Director*

Gas & Water Division

Mark Naylor, *Director*
Stephen Frink, *Assistant Director*

Audit Division

Stu Hodgdon, *Chief Auditor*

Safety Division

Rick Marini, *Director*

COMMISSION PROCEEDINGS

Number of Dockets	FY 2002	FY 2003
Electric	58	55
Natural Gas	20	31
Rules	2	1
Sewer	2	1
Telecommunications	158	120
Water	23	18
Other	4	6
Total	267	232

Number of Decisions	FY 2002	FY 2003
Electric	101	119
Natural Gas	50	35
Sewer	6	0
Telecommunications	218	175
Water	76	47
Other	5	14
Total	456	390

COMMISSION FINANCES

Pursuant to RSA 363-A, the Commission is primarily funded by an assessment on the utilities it regulates. The utilities, in turn, include their portion of the assessment in their rates, with their share of the total assessment determined by the level of their revenue. In addition, half of the Safety Division is federally funded.

CLASS DESCRIPTION	CLASS	ACTUAL FY 2002 EXPENSES	ACTUAL FY 2003 EXPENSES
Salaries	010	\$2,955,238	\$3,369,449
Current Expense	020	164,730	160,154
Rent & Lease – Other	022	243,168	257,576
Maintenance – Other	024	41,697	12,557
Organizational Dues	026	37,607	43,726
Equipment	030	130,288	159,323
Indirect Costs	040	46,147	45,753
Audit Fund Set Aside	041	0	106
Consultants	046	50,523	16,481
Contractual Maintenance	048	3,750	0
Trans. to Other Agencies	049	122,661	123,900
Other Personnel Services	050	22,864	4,409
Benefits	060	897,035	1,095,746
Travel (In State)	070	13,775	13,981
Travel (Out of State)	080	84,155	80,814
Printing / Advertising	090	48,541	41,390
Westlaw	091	19,011	20,035
Educational Training	092	14,328	22,839
Retirees Health	097	129,548	123,358
Workers Compensation	8011	14,838	2,368
Unemployment	8600	0	0
Total		\$5,039,904	\$5,593,965



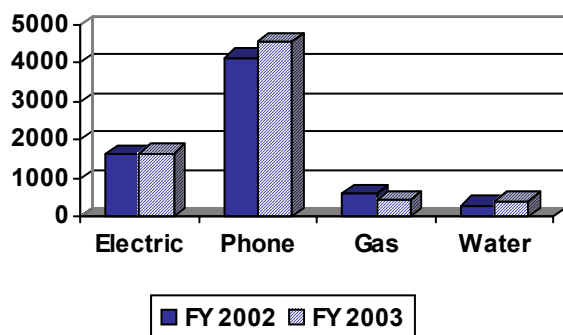
CONSUMER AFFAIRS

The Consumer Affairs Division assists consumers and utilities in the resolution of disputes and provides information to consumers to help them understand their rights and responsibilities as customers of competitive and monopoly utility services. It also tracks and monitors consumer calls, watching for trends in complaints which may indicate service quality, regulatory compliance or consumer protection issues that require Commission attention. The Consumer Affairs Division also educates consumers and other public interest groups to improve the public's understanding of utility services and practices and help them make informed choices about utility service. As more utilities doing business in New Hampshire are national companies, the Director of our Consumer Affairs Division is also active in developing consumers policies at a regional and national level to ensure consumers in New Hampshire are better served.

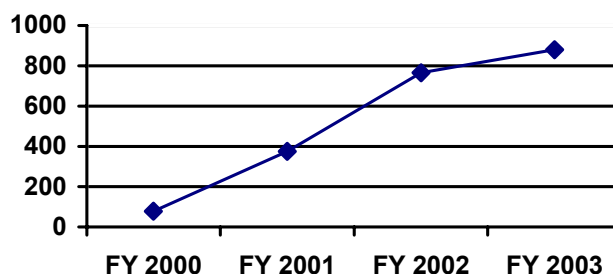
CONSUMER INQUIRIES

The development of competitive markets in the telephone industry and the emerging competitive markets in the gas and electric industry have led to increasingly

TOTAL CALLS BY UTILITY GROUP



CALLS REGARDING COMPETITIVE PROVIDERS OF DIAL TONE SERVICE



complex relationships between customers and their utility service providers. It has also significantly changed the nature of the calls received by the Consumer Affairs Division. Historically, consumer complaints involved payment arrangements on a bill or questions about the rate charged for the service and the complaint could be resolved quickly. Resolving complaints today may require the analyst handling the call to understand the mechanics of the electric transmission and distribution system, to be able to explain to a customer how their dial tone service gets migrated from one local service provider to another, or to help customers understand utility gas buying policies. As a result, as reported during the last biennium, we continue to experience calls that require lengthy investigation on the part of staff.

The Consumer Affairs Division continues to work with the Consumer Protection Bureau of the Attorney General's Office, sharing information about consumer protection issues and providing training on utility issues to the volunteers who staff the Consumer Protection Bureau phones. During this biennium, members of the Attorney General's Consumer Protection Bureau have also provided training to the



Commission's Consumer Affairs Staff on the services the Consumer Protection Bureau provides. This relationship allows each group to be more responsive to consumer inquiries and to provide better customer service.

CONSUMER EDUCATION

During this past biennium, the Commission continued to reach out to consumers to provide them with information on utility issues. Through public speaking engagements, interaction with consumer groups and press releases to the media, the Commission strives to help consumers become better informed about their utility services. Over the past two years, the Consumer Affairs Staff discussed the restructuring of the electric industry with a variety of residential and commercial groups. The Consumer Affairs Staff has also met with the New Hampshire Municipal Welfare Directors' Association to discuss the Commission's rules regarding payment arrangements and service disconnections as well as to discuss the electric assistance program which was also implemented during this biennium. The establishment of a dialogue between the Consumer Affairs Division and municipal welfare officials has allowed both groups to better assist customers. In addition, the Consumer Affairs Division continues to participate in a series of statewide workshops held each fall for all social service agencies. The goal of these workshops is to provide social service agencies with information on utility service changes and how those changes may impact their clients. As a result, social service agencies receive the information and resources they need to effectively communicate changes to their clients.

Monies recovered for consumers		
	FY 2002	FY 2003
Electric	\$364.44	\$600.81
Gas	\$1,700.05	\$57,356.80
Telephone	\$125,116.26	\$101,954.32
Water	\$10.45	\$1,250.66
Total	\$127,191.20	\$165,779.13

CONSUMER ISSUES

As the Commission's primary contact with consumers, the Consumer Affairs Division is positioned to provide valuable information to the Commission on consumer issues. During the last biennium, the Consumer Affairs Division requested the Commission open a show cause proceeding against ADST, a long distance telephone provider which the Division believed was actively changing the long distance service of New Hampshire customers without the customer's authorization, a practice commonly referred to as slamming. The Commission ultimately found ADST to be in violation of the Federal Communications Commission's rules relative to carrier changes and required ADST to reimburse customers and to cease doing business in New Hampshire. As of June 30, 2003, a total of \$10,837.63 in unauthorized toll charges had been returned to the more than 250 New Hampshire customers slammed by ADST.

The Commission also addressed a continued concern regarding the level of service provided to customers by Northern Utilities. The Consumer Affairs Division worked with Northern Utilities to develop service quality standards designed to improve the level of service provided to New Hampshire customers. Those standards, which incorporated monetary penalties for any failure to meet the standards, were approved by the Commission in the fall of 2002.

The Consumer Affairs Division also continued to work on an initiative that would address billing issues that arise when a customer's request to change toll providers is not processed in a timely or efficient fashion. Along with other states and representatives from the telecommunications industry, the Consumer Affairs Division has worked to develop a long term solution for this problem. The implementation of the policy should resolve the vast majority of billing issues resulting from the carriers' inability to communicate with one another in an accurate, complete and timely manner.



This biennium also saw the conclusion of a long time project of the Consumer Affairs Division with the implementation of the low-income electric assistance program. Authorized in part by RSA 374-F, the electric assistance program reduces the electric bills of low-income

customers to more affordable levels. While the program provides much needed assistance to low-income customers, all customers will benefit in the long-term from lower account receivables the program should create.

Reasons For Call - FY 2002				
(by industry)				
	Electric	Gas	Phone	Water
Products and Services	35	1	628	0
Billing and Rates	437	293	700	89
Competition	227	3	296	0
Referral	640	123	1946	51
Rule/Tariff	91	23	117	19
Quality of Service	90	52	268	44
Information	107	100	170	111
Miscellaneous	2	3	20	2
TOTAL	1629	598	4145	316

Reasons For Call - FY 2003				
(by industry)				
	Electric	Gas	Phone	Water
Products and Services	32	2	390	3
Billing and Rates	424	227	699	91
Competition	203	1	579	0
Referral	617	112	2,199	130
Rule/Tariff	79	24	132	25
Quality of Service	157	36	281	70
Information	154	66	225	109
Miscellaneous	3	5	24	2
TOTAL	1,669	473	4,529	430



TELECOMMUNICATIONS INDUSTRY

Overview

The Commission regulates telephone companies that provide traditional telephone services; that is, local telephone service to homes and businesses, and long distance service within New Hampshire. While the Commission regulates high-speed data that is provided by the telephone companies it regulates, it has no regulatory authority over other forms of internet access, such as that provided by internet service providers, or access provided via cable telephony. The Commission also does not regulate cellular telephone companies, companies that provide wholesale service to other telephone companies, internet service providers, cable television, or out-of-state long distance.

Companies that provide traditional local phone service fall into two groups: incumbent local exchange carriers (ILECs), who are required to provide service to any customer in their service area, and competitive local exchange carriers (CLECs), who provide service based on a competitive business plan. Local service competition was created by the Telecommunications Act of 1996 (TAct), passed by Congress and is administered by the Federal Communications Commission (FCC) and the state utilities commissions. In New Hampshire, Verizon is currently the only ILEC that is required to open its network to competition.

Competition for in-state long distance service, or toll service, has been authorized in New Hampshire since 1991. In 1997, the Commission required ILECs to allow their customers to pre-select their in-state long

distance service provider. This leveled the playing field for the market by eliminating the necessity for dialing additional digits in order to place an in-state long distance call with a carrier other than the incumbent. Shortly thereafter, in-state long distance service became very competitive.

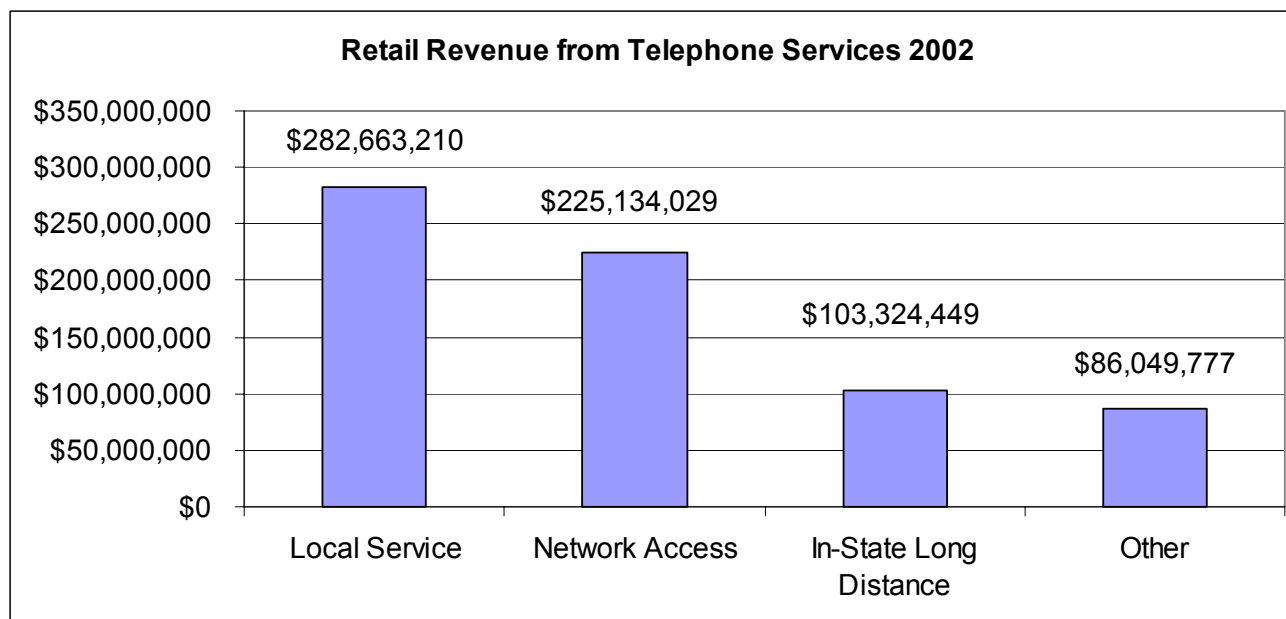
Types of telecommunications services:

1. *Exchange telecommunication service:* local and toll services for residential and business customers, local private line voice and data services and Centrex services.
2. *Exchange access service:* links a customer and the transmission facilities of other telecommunication carriers.

New Hampshire has eleven incumbent local exchange carriers. Ten of these ILECs are independent telephone companies which serve customers in their defined service areas. Verizon has the responsibility to serve the remainder of the state's telephone customers.

RETAIL REVENUE

In March of each year local exchange carriers, both ILECs and CLECs, report total annual revenue earned from customers in New Hampshire. ILECs are required to report this



Source: 2002 Annual Reports to the NHPUC

total revenue separated into interstate and intrastate operations. The FCC has regulatory jurisdiction over interstate operations, while the New Hampshire Commission has jurisdiction over intrastate operations.

According to the Annual Reports filed in 2002, the total revenue produced by the provision of local telephone service in New Hampshire is \$266 million, down from approximately \$305 million last year. Verizon has 76% of that revenue, Independent Telephone Companies have 4%, and CLECs have 20%.

ILECs may derive revenue from operations in four categories: local service, network access, long distance (in-state), and miscellaneous. Only those ILECs which are also toll providers receive revenue from in-state toll. Some companies derive a significant portion of their revenue from access charges. The chart on the following page contains selected data to give a snapshot of ILEC operations in 2002.

Revenues generated from telecommunications services are reported to the Commission in four broad categories:

1. *Local Service Revenue*: derived from telephone lines, services on those lines, and features, such as voice mail.
2. *Network Access Revenue*: derived from the per-minute charges telephone companies pay to one another for the use of their network. For instance, if a Verizon customer places a long distance telephone call using AT&T, AT&T must pay Verizon a per minute fee for the use of Verizon's network in originating the call.
3. *Long Distance (In-State) Network Service Revenue*: derived from long distance calls placed within the state by end users.
4. *Miscellaneous (Other) Revenue*: derived from any revenue not captured in the preceding categories, such as revenue from directory publishing, interexchange services, rentals, installations, billing & collection services and nonrecurring charges.

The total retail revenue reported by telephone companies from New Hampshire operations for 2002 was \$802,496,537.



NH Incumbent Local Exchange Carriers - Selected 2002 Data											
NH Intrastate Operations *											
Description	Bretton Woods Telephone Co.	Dixville Telephone Co.	Dunbarton Telephone Co.	Granite State Telephone Co.	Hollis Telephone Co.	Kearsarge Telephone Co. (TDS)	Merrimack Telephone Co. (TDS)	Northland Telephone Co. (TDS)	Union Telephone Co.	Verizon N.H.	Wilton Telephone Co. (TDS)
Intrastate Revenue											
Local Service	59.7%	16.9%	23.2%	42.3%	61.3%	49.0%	47.2%	33.1%	49.8%	67.7%	34.1%
Access	34.5%	91.3%	69.2%	51.2%	29.0%	44.4%	30.1%	46.3%	24.9%	8.4%	56.8%
In State Toll					9.1%			17.8%	24.1%	12.8%	18.2%
Other	5.8%	-8.1%	7.6%	6.6%	0.6%	6.6%	22.7%	2.7%	1.2%	11.1%	-9.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Local Service Lines											
Business	562	567	159	1,978	682	2,860	4,591	52	978	221,332	860
Residential	274	21	1,614	9,377	3,059	7,679	13,937	351	7,018	520,640	2,892
Total	836	588	1,773	11,355	3,741	10,539	18,528	403	7,996	741,972	3,752
Reported Intrastate ROR	9.68%	13.06%	6.43%	1.92%	16.17%	12.90%	-4.36%	8.06%	10.22%	1.54%	-5.03%
Note: * Dixville Telephone Company, Dunbarton Telephone Company and Northland Telephone Company report on a combined intrastate and interstate basis. ** Union Telephone Company Intrastate ROR based on preliminary separation factors. In 2002 Telephone and Data Services, Inc. (TDS) acquired Hollis Telephone Company, Wilton Telephone Company and Merrimack County Telephone Co.											

Source: 2002 Annual Report Form I

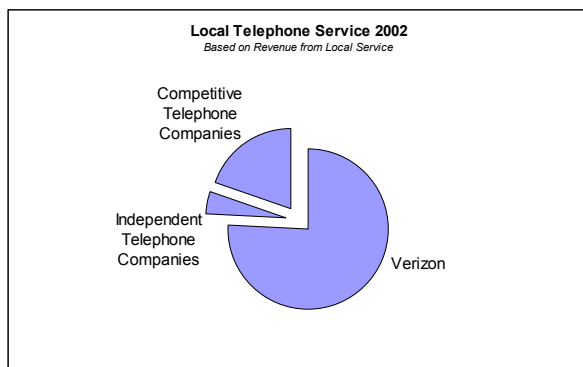
LOCAL COMPETITION IN NEW HAMPSHIRE

Since local service competition was authorized in New Hampshire in 1997, seventy-one areas of the state have been opened to facilities-based competition. Facilities-based providers are those companies who serve customers via their own networks, by using unbundled network elements, such as copper loops, that they lease from Verizon, or by leasing access lines from Verizon at retail rates. Twelve communities are served by ten or more competitive local exchange carriers (CLECs). Manchester has the most active competition, with CLECs reporting more than 26,000 subscriber lines in service.

One hundred CLECs have been approved for operation in New Hampshire. CLEC approvals lapse after two years if the

CLEC chooses not to begin operations in the state. Of the approved CLECs, only twenty-five served customers in 2002 with some form of local service compared to thirty-five CLECs serving customers in 2001.

Area	Number of CLECs
Manchester	46
Concord	26
Portsmouth	26
Nashua	22
Dover	21
Exeter	21
Derry	18
Hampton	17

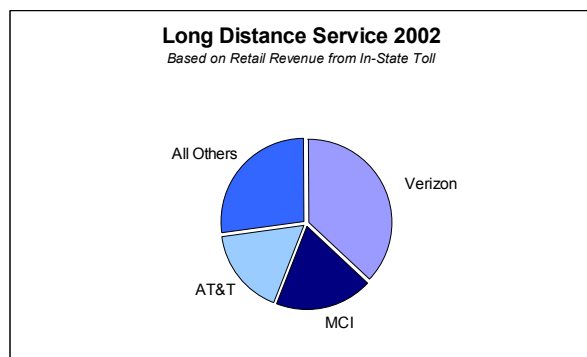


Source: 2002 Annual Reports to the NHPUC

LONG DISTANCE COMPETITION

Four hundred and twenty-five (425) toll providers have been certified for operation in New Hampshire. One hundred and sixty-three (163) toll providers provided some form of long distance service in the state in 2001 and again in 2002.

According to the Annual Reports filed in 2002 by companies providing in-state long distance, the total revenue from in-state long distance service in New Hampshire is \$103 million, which is about \$18 million less than in-state long distance revenue earned in 2001.



Source: 2002 Annual Reports to the NHPUC

STATUS OF COMPETITION

The telecommunications industry is still in the process of recovering from the loss of investor confidence during the biennium. As a

result, reorganizations, mergers and bankruptcies were a significant aspect of the Telecommunication Division's work. In the biennium, certification of new companies decreased and requests for cessation of service increased, when compared to the last biennium.

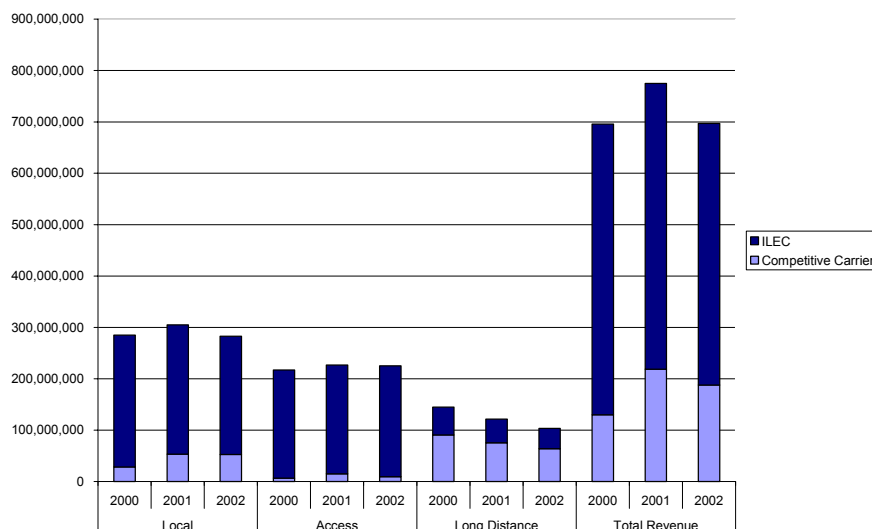
Certifications of telecommunications public utilities fell dramatically from 2001 to 2002. A total of four hundred twenty-five long distance carriers are certified in New Hampshire. Fewer authorizations were granted to new local exchange carriers as well. There are currently one hundred local exchange carriers authorized to provide service in the State, a net increase of fourteen over the course of the biennium. Even though the number of new certifications was reduced, the number of certified carriers remains large, suggesting that many companies and entrepreneurs see opportunities in the telecommunications marketplace in New Hampshire. The problems in the telecommunications marketplace were also reflected in the number of companies surrendering their certifications. Eleven long distance carriers withdrew from the New Hampshire market in 2001 and twenty-one withdrew in 2002. Eight local exchange carriers withdrew in 2001 and twelve more withdrew in 2002.

With changes in technological development, there has been significant growth in the wireless or cell phone market. When wireless telecommunications providers launched single priced local and nation-wide calling plans, which allow virtually unlimited calling at one price, cell phone service blossomed. This has had the effect of reducing the number of minutes of use on long distance land lines and the associated revenue. Various sources also show an overall reduction in traditional access lines in the state.

Further downward pressure on landlines, specifically on second lines installed into residences and additional lines into businesses, is occurring as a consequence of the increasing use of cable modems and digital subscriber line (DSL) service. Cable service allows high speed computer access to the internet without use of



Competitive Trends in New Hampshire 2000-2002



the phone line. DSL service provides high speed access by piggy-backing onto the existing phone line. New second or multiple installations for FAX machines can be expected to drop as e-mail displaces the need for many faxes.

MERGERS AND ACQUISITIONS

In 2002, the Commission approved the acquisitions of three incumbent local exchange carriers: Hollis Telephone Company (HTC), Wilton Telephone Company (WTC) and Merrimack County Telephone Company (MCT) by Telephone and Data Systems, Inc. (TDS), who already owned Kearsarge Telephone Company (KTC). TDS is a Delaware corporation and the parent company of subsidiaries that provide, among other things, local telephone service in twenty-eight states throughout the United States, including New Hampshire. TDS Telecom is a subsidiary of Telephone and Data Systems, Inc. and the sole stockholder of more than 100 independent local exchange carriers in the United States, including Kearsarge Telephone Company which operates in New Hampshire under the jurisdiction of the Commission. With its acquisition of the three independent local exchange carriers, TDS Telecom's total line count in New Hampshire

grew to 36,560 access lines which now ranks second to Verizon.

Associated with the general down-turn in the telecommunications markets experienced in the last couple of years, has been significant merger and acquisition activity. The Commission reviewed and modified the records of about sixty competitive companies which changed hands in the biennium. Many of these transfers of control were associated with bankruptcies of companies certified in New Hampshire. Among the competitive carriers, one acquisition stands out. AT&T spun-off its AT&T Broadband company and its cable services which were purchased by ComCast.

KEY CASES

Verizon's Request to Provide Long Distance Service

In 2001, Verizon sought and gained approval from the FCC to offer out-of-state long-distance service. Verizon has begun marketing this service in the state to its own customers and to customers of its competitors.



Virtual NXX

As a result of the TAct and compensation mechanisms between carriers that encourage arbitrage of certain types of services, some competitive phone companies established local phone numbers throughout the state. Unlike traditional phone service, the customers associated with the phone numbers were not physically located in the geographic area assigned to the telephone number. This created confusion, and unwanted long distance charges, for the customers of Independent Telephone Companies. The Commission convened members of the industry, who, together with Staff, reached agreement not to bill such calls as toll until the Commission determined whether the calls should be local or toll. Shortly after the agreement was in place, the FCC determined that calls to the Internet were jurisdictionally interstate and that the lucrative compensation that created the problem would be phased out. The FCC did not resolve the issue of whether such calls were local or toll, however, so the Commission heard testimony on the issues. In Order No. 24,080, the Commission found that certain uses of Virtual NXX were in the best interests of the public. The two uses approved by the Commission were internet access and a type of foreign exchange service. To promote statewide dial-up internet access, the Commission devised an Internet Access NXX plan, calling for Internet Service Providers to be assigned special numbers that have a statewide local calling area, effectively making any call to the Internet in New Hampshire a local call. The parties to the docket have requested reconsideration of the order.

Financial Audit of Verizon-NH

In 2001, the Commission contracted Liberty Consulting to conduct a financial audit of Verizon-NH based on Verizon-NH's 2000 Annual Report. Liberty submitted its Final Audit Report in September 2002. The Audit found that Verizon-NH's financial reporting is accurate, in that its accounting systems report entries made into the systems correctly.

Liberty also identified two issues that may have a significant impact on a determination of whether Verizon-NH's rates continue to fall within a just and reasonable range: Verizon-NH's authorized cost of capital and the treatment of Yellow Pages revenue. The Commission opened docket DT 02-110 to establish an appropriate cost of capital reflective of the current economic climate. With regard to Yellow Pages, Liberty reported that Verizon, Inc., Verizon-NH's parent company, removed Yellow Pages revenues from Verizon-NH without receiving Commission approval. Verizon disagreed with the Report's conclusion. As a result of the disputed allegations, the Commission opened docket DT 02-165 to fully investigate all the issues associated with Verizon's elimination of Yellow Pages revenue from Verizon-NH's reported revenue. Both cases are set for hearing during the next biennium.

Quality of Service Report Card

In March 2002, one of the CLECs filed a petition for waiver of the public disclosure requirements set forth in New Hampshire Administrative Rule Puc 1308.04 regarding quality of service measurements. The rule requires all telephone utilities to file reports on quality of service "for public availability" on an annual basis. The CLEC requested it be permitted to file its quality of service report confidentially.

The Commission convened members of the industry who, together with Staff, developed a Carrier Report Card based on the quality of service information required by the rule, but containing no confidential information, that could be published for the benefit of consumers. As a result, the Carrier Report Cards are posted on the Commission's web site annually and retained for two years.



AREA CODE

In its ongoing quest to preserve New Hampshire's single 603 area code, the Commission continues to pursue number conservation measures and actively participate in national efforts to find ways to extend the area code indefinitely. Wireless carriers, who were unable to participate in the number pooling trial beginning May 1, 2000 because of technical limitations, began pooling in November 2002. Accordingly, wireless carriers now receive telephone numbers in blocks of 1000 instead of 10,000. Carriers who needed more than 1000 numbers in a particular location were allocated the amount of numbers needed, but did not waste numbers that were not needed. As a result of number pooling and other number conservation efforts, the area code is expected to last until the second quarter of 2005, nearly five years longer than originally predicted.

ELECTRONIC ANNUAL REPORTING

With the goal of facilitating the filing and review of regulatory reporting requirements and promoting the efficient and effective representation of telecommunications data, the Division developed and released an electronic annual report template in December 2002. The Excel model was used by incumbent telephone companies for their annual filings due March 31, 2003. The overall response to the electronic filing capability was very positive. Benefits to the electronic filing of Annual Reports include: simplified review before the final information is submitted; automated mathematical functions where columns and rows of figures are involved; more efficient case management; ability to efficiently analyze the data, generate reports, identify trends and spot anomalies; reduce the number of paper copies required; and provide public access to non-confidential annual report information over the Internet.



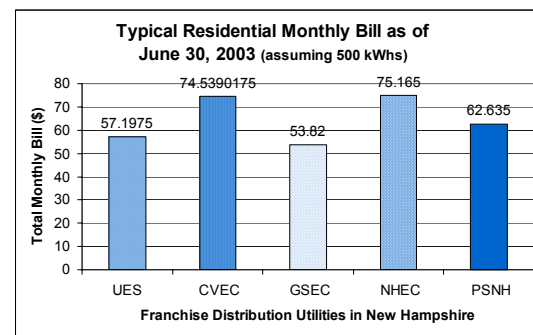
ELECTRIC INDUSTRY

Overview

The past two years marked a number of major achievements, as well as increased challenges, as the New Hampshire electric industry continues its transition from a structure of vertically integrated, regulated monopolies to one that entails increased wholesale and retail competition. The provision of safe and reliable service at reasonable prices, however, is still central to all the policy decisions confronting the Commission.

Significant restructuring-related events occurred over the past two years. Perhaps the most important was the sale of 88.2 percent of the Seabrook nuclear plant. Seabrook, an 1,160 MW pressurized water reactor, is the largest electricity generator in New Hampshire. The sale reduced the stranded costs of Public Service Company of New Hampshire (PSNH), Granite State Electric Company (GSEC) and New Hampshire Electric Company (NHEC). The Commission also approved the restructuring of Concord Electric Company and Exeter & Hampton Electric Company which combined the two distribution companies into a single distribution company, Unitil Energy Systems (UES) and paved the way for customer choice. Another important restructuring-related proceeding was the resolution of the six-year court challenge between the Commission and Connecticut Valley Electric Company (CVEC). In late 2002, a three-part settlement agreement allowed PSNH to purchase the distribution assets of CVEC and in exchange CVEC would recover a certain level of stranded costs and drop its long-standing federal district lawsuit against the Commission and withdraw its wholesale stranded cost proceeding at the Federal Energy Regulatory Commission.

Despite the challenges in wholesale markets, particularly with the bankruptcy of a number of large power companies and the challenges of moving toward standard market design (SMD) in New England, new generation has come on line in the State and region over the past few years. In New Hampshire, over 1,200 MW of new gas-fired combined cycle generation came on-line since 2001. For the near future, a surplus of power exists in New Hampshire for its steadily growing demand. To keep pace with the growth in the State and the region, a number of large transmission and distribution projects have been undertaken and completed in the last two years and more are expected to be completed over the next two to three years.



ASSET DIVESTITURE

Sale of Seabrook

In a year of significant achievements, perhaps the most noteworthy was the successful sale of the 1,160MW Seabrook Nuclear plant. The sale, an integral component of the PSNH restructuring agreement, began in 2001 with the selection of JP Morgan as the Commission's auction advisor and sale manager. FPLE Energy



Seabrook was announced in April 2002 as the auction winner of 88.2 percent of the ownership interest in the plant. After a thorough hearing process, the Commission approved the sale on September 12, 2002 and the transfer of ownership occurred on November 1, 2002. The final sale price was just under \$800 million, making it one of the highest nuclear plant sales ever conducted. Three New Hampshire utilities benefited from the sale: PSNH, NHEC and GSEC. For PSNH, whose affiliate, North Atlantic Energy Company, owned 36 percent of the plant, the sale proceeds were used to reduce debt and recover stranded costs, reducing the time period that customers pay so-called “Part 3” stranded costs by almost two years.

Sale of Vermont Yankee

On July 31, 2002, the Vermont Yankee (VY) nuclear power plant was sold to a subsidiary of Entergy Corporation. PSNH had a 4.3 percent ownership interest in VY. Under the terms of the sale, and as approved by the Commission, PSNH will continue to purchase output from the plant through 2012 at fixed prices.

RESTRUCTURING

Unitil Restructuring

Another major proceeding at the Commission concerned the restructuring of Unitil’s two New Hampshire distribution companies, Concord Electric Company and Exeter & Hampton Electric Company. The Commission approved two settlement agreements. One permitted the company to merge its two operating companies into a single distribution utility, Unitil Energy Systems (UES), and authorized new distribution rates. The other settlement agreement approved by the Commission paved the way for the newly combined utility, UES, to offer its customers retail choice and end the long court injunction that delayed electric restructuring for Unitil’s New Hampshire customers.

Through the settlement, the parties defined a process to conduct simultaneous auctions to divest the Company’s power supply portfolio and select Transition Service supplier(s). The auction process was completed and Mirant emerged as the winning bidder in both auctions.

Sale of CVEC to PSNH

After years of litigation, a comprehensive multi-part settlement was reached in late 2002 that resolved all outstanding litigation between Connecticut Valley Electric Company (CVEC) and the Commission. As part of the agreement, PSNH will purchase the service territory of CVEC for \$9 million and pay CVEC’s parent company, Central Vermont Public Service, \$21 million to terminate the long-standing wholesale power contract between Central Vermont and CVEC. Upon consummation of the transaction, all CVEC’s customers will become PSNH customers and take service from PSNH at the same rates and under the same terms and conditions as PSNH’s customers. PSNH would be entitled to recover the \$21 million termination payment as a stranded cost. The settlement agreement, which was supported by the City of Claremont, the Office of Consumer Advocate, the New Hampshire Governor’s Office, New Hampshire Legal Assistance and Commission Staff, was approved by the Commission on May 23, 2003. The transaction is expected to close on or around January 1, 2004.

PSNH TRANSITION SERVICE AND STRANDED COST RECONCILIATION

Transition Service

Pursuant to RSA 369-B:3 and the Agreement to Settle PSNH Restructuring, PSNH was required to supply Transition Service from its existing portfolio of generation assets and, to the extent necessary, supplemental power purchases. From May 1, 2001 through January

31, 2003, the Legislature set the Transition Service rate to be charged to all of PSNH's customers at 4.4 cents per kilowatt-hour. Effective February 1, 2003, the Legislature set the Transition Service rate for PSNH's residential and small commercial customers at 4.6 cents per kilowatt-hour. For PSNH's large commercial and industrial customers, however, the rate was to be determined based on an analysis of PSNH's actual costs of providing the service. On September 13, 2002, PSNH filed testimony and other information supporting a Transition Service rate of 4.47 cents per kilowatt-hour. After hearing from several interested parties and reviewing updated market information supplied by PSNH and the other parties, the Commission established the Transition Service rate for large commercial and industrial customers at 4.67 cents per kilowatt-hour for the period February 1, 2003 through January 31, 2004. Effective February 1, 2004, the Transition Service rate will change for all of PSNH's customers again based on an analysis of PSNH's costs of providing the service. A filing in support of a new rate is expected from PSNH in the fall of 2003.

required purchases from independent power producers and; c) Part 3 costs which include unsecuritized regulatory assets as well as the costs of owning and operating PSNH's generation assets. Part 1 stranded costs have the highest priority of collection, followed by Part 2, with Part 3 stranded costs subject to a Recovery End Date that potentially puts some of those costs at risk of non-recovery. It is possible, however, that PSNH may collect all of its Part 3 costs prior to the Recovery End Date. Since PSNH uses its generation assets to provide Transition Service, all of the Transition Service revenues PSNH receives are included in the reconciliation of stranded costs.

On June 28, 2002, PSNH filed its first SCRC reconciliation for the period May 1, 2001 through December 31, 2001. PSNH's SCRC reconciliation for the period January 1, 2002 through December 31, 2002 was filed on May 1, 2003. The average 3.4 cents per kilowatt-hour SCRC rate currently being charged to PSNH's customers will remain in effect until such time as there are no more Part 3 stranded costs to collect, or the Recovery End Date, whichever occurs first.

Stranded Cost Reconciliation

PSNH is required to periodically file a reconciliation of its revenues from the average 3.4 cents per kilowatt-hour Stranded Cost Recovery Charge (SCRC) and the stranded costs it has been allowed to recover. There are three general categories of stranded costs PSNH is allowed to recover: a) Part 1 costs which relate to securitization bonds that were allowed to be issued as part of the restructuring settlement; b) Part 2 costs include nuclear decommissioning costs and other ongoing costs such as the

CORE ENERGY EFFICIENCY PROGRAMS

As a result of Restructuring, a set of uniform energy efficiency programs were designed for statewide implementation, with individual utilities serving the customers within their territory. A variety of programs exist, serving both residential and commercial and industrial customers. They include programs for new construction as well as retrofitting existing structures, and also include rebate programs for

Peak Load and Time in New Hampshire by Utility, 2002		
	Peak Load (MW)	Time of Peak Load
Concord Electric*	118	8/14/02, 3pm
E&H Electric*	143	7/3/02, 3pm
CVEC	29	8/14/02, 3pm
GSEC	177	8/14/02, 3pm
NHEC	172	12/02
PSNH	1,575	8/14/02, 3-4pm

Source: Fiscal Year 2002 NHPUC Annual Reports and FERC Form No. 1, 2002 Calendar Year

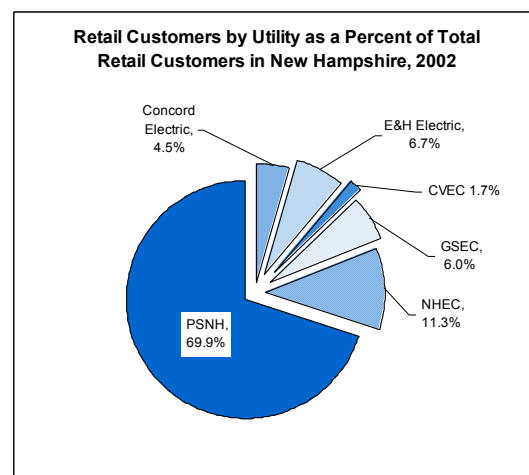
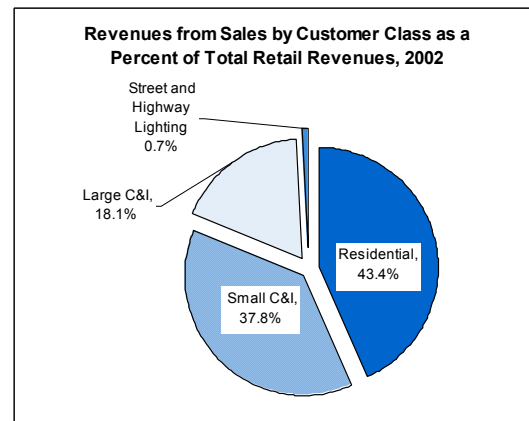
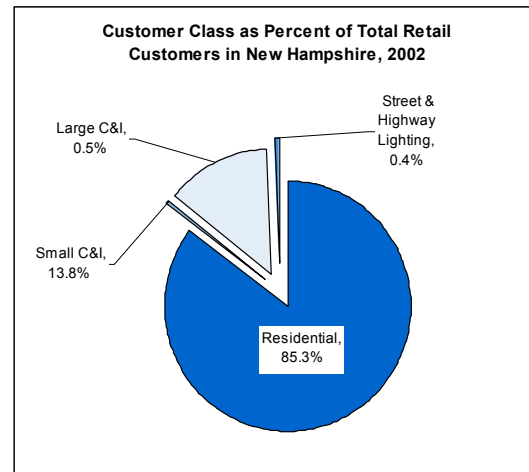
* As of December 2002, Concord Electric and E&H Electric Co. have merged to become Unitil Energy Services.



selected lighting and appliances. Additional details on the core energy efficiency programs may be found by visiting NHSaves.com, the web site established by the utilities or by calling the toll free number 1-866-266-2420.

In addition to the statewide programs, individual utility-specific programs exist, including a pilot Pay-As-You-Save (PAYS) program being implemented in the service territories of Public Service of New Hampshire and the New Hampshire Electric Cooperative. In short, PAYS allows customers to pay for energy efficiency products via the electricity savings they achieve from implementing them. That is, the customer pays less on a monthly basis for a PAYS product than the amount of dollars he or she saves by reduced consumption of electricity due to the conservation measure.

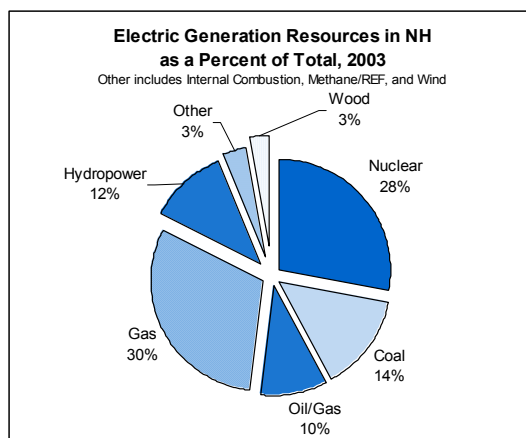
The core programs were initially rolled out to customers beginning June 1, 2002 and are funded through the Systems Benefit Charge (SBC) which appears on customers' electric bills. Sixty percent of SBC monies are devoted to these programs. The remainder is allocated to serve low income customers through the Electric Assistance Program. The current set of programs will expire at the end of 2003. The utilities are expected to submit new proposals describing their plans for energy efficiency programs beyond the 2003 timeframe in the fall of 2003. The utilities file periodic updates on the performance of the programs including information regarding program expenditures, projected energy savings from implemented measures, and the number of customers served by the programs. Those updates are posted on the Commission's web site.



REGIONAL AND WHOLESALE ELECTRICITY MARKET ISSUES

Since the Federal Energy Regulatory Commission (FERC) issued Order 2000 urging transmission owning utilities to voluntarily place their transmission facilities under the control of Regional Transmission Organizations (RTOs), the Independent System Operator –New England (ISO-NE), the entity that operates New England's power system and wholesale electricity market, has in cooperation with New England Power Pool (NEPOOL) continued to pursue RTO status. Another significant wholesale development was the July 31, 2002 issuance of a Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD) by FERC and FERC's issuance of a Whitepaper on Wholesale Markets Platform. Both have further encouraged ISO-NE to continue its pursuit of RTO formation.

The Commission is working closely with the New England Conference of Public Utilities Commissioners (NECPUC) to ensure that New Hampshire's interests are adequately and properly represented in these proceedings. Important considerations in these proceedings are the structure and the performance of the ISO-NE administered wholesale market and the reliability of the regional transmission system. As the recent blackout (August 14, 2003) suggests, the New England regional system should not be looked at in isolation, as its performance ties in closely with the health of the nation's transmission grid.



The New England power system consists of more than 350 generators and power plants, over 8,000 miles of high voltage transmission lines, 12 interconnections to systems in New York and Canada, and has more than 31,000 megawatts of total installed capacity. An all-time peak demand of 25,348 megawatts occurred in New England on August 14, 2002. The ISO-NE market currently includes more than 200 participants and serves 6.5 million households in a region with a population of 14 million. According to ISO-NE, almost 3,000 megawatts (MW) were added in 2002, and 3,000 MW more is expected in 2003. The 2002 Regional Transmission Expansion Plan (RTEP) identifies nearly \$900 million in needed transmission projects in the region, and New England's maximum consumption is expected to grow from 22,000 megawatts in 2000 to more than 27,800 megawatts in 2010.

As for the market structure, New England underwent a significant change in 2003. Beginning March 1, 2003, the ISO-NE implemented locational marginal pricing (LMP) for seven distinct regions within New England. To better reflect costs, the market now supports day-ahead and real-time nodal pricing for generators and zonal pricing for loads. The move to nodal pricing for loads is currently being considered.

The ISO-NE and NY-ISO filed a Joint Petition on August 23, 2002 with the FERC for a declaratory order regarding the creation of a northeastern Regional Transmission Organization (NERTO), i.e. merger of ISO-NE and NY-ISO into one Regional Transmission Organization (RTO). The Commission, in concurrence with the filing of NECPUC, on November 8, 2002 urged FERC to defer consideration of the Joint Petition because the formation of NERTO, in the absence of proper allocation of benefits, would result in higher rates for New Hampshire customers and did not adequately address the issue of transmission cost allocation and lacked specificity on core elements ranging from governance to pricing to planning. The petitioners withdrew their NERTO proposal on November 22, 2002.



Despite the unsuccessful NERTO initiative, the ISO-NE Board of Directors unanimously voted on January 16, 2003 to continue the pursuit of a RTO for the six-state region of New England. This initiative is expected to lead to a joint filing during the last quarter of calendar year 2003 by ISO-NE and transmission owners before FERC for the formation of RTO-New England (RTO-NE). The Commission has been working closely with NECPUC on governance, planning, resource adequacy, and market rules through participation in various working groups that are part of the ongoing RTO-NE initiative. The Commission also continues to actively participate in the process through other initiatives like the Regional State Committee (RSC) initiative in cooperation with the New England Governors' Conference. The RSC would have significant input into regional transmission planning and resource adequacy matters.

On July 31, 2002, FERC issued a NOPR on Remedying Undue Discrimination through Open Access Transmission Service (See Docket No. RM01-12-00) with the objective of further improving the performance of wholesale markets in electricity, eliminating unfair discriminatory practices in provisioning of transmission service across all types of transmission customers, creating larger energy markets to eliminate "seams", creating stronger

market-based incentives for investment in transmission, and asserting FERC jurisdiction over all interstate transmission service, including the transmission component of bundled retail service.

The issuance of the NOPR was followed by a nine month comment period. The Commission worked with NECPUC to explain its concerns about the uniqueness of New England with regards to the region's commitment to regional cooperation in developing wholesale electric markets and assessing contributions from all forms of electricity resources, including demand side options and renewable sources of power. Following extensive comments, FERC has issued a Whitepaper on Wholesale Power Market Platform on April 28, 2003 that proposed to remove some of the more controversial elements of the NOPR. FERC proposed to substitute formation of RTOs or ISOs for the requirement that public utilities create or join an ITP and ISO-NE is expected to file a petition with FERC in October 2003 to form an RTO. The future of Standard Model Design and RTO formation is also an important issue in Congress's ongoing consideration of an Energy Bill.

Summary Data: Franchise Distribution Utilities Operating in New Hampshire in 2002

	Concord Electric*	E&H Electric*	CVEC	GSEC	NHEC	PSNH	Totals
Residential Customers	23,702	35,570	9,047	32,625	62,848	382,481	546,273
Small Commercial & Industrial Customers	3,972	5,869	1,569	5,757	9,324	61,775	88,266
Large Commercial & Industrial Customers	70	56	2	240	10	2,818	3,196
Public Street and Highway Lighting	807	1,168	15	50	89	509	2,638
Resale Customers		0	0	0	1	31	32
Total Number of Retail Customers	28,551	42,663	10,633	38,672	72,271	447,583	640,373
MWhs sold to Residential Customers	171,070	286,727	56,911	267,525	395,880	2,765,210	3,943,323
MWhs sold to Small C&I Customers	226,875	169,036	79,382	426,308	208,253	2,968,628	4,078,482
MWhs sold to Large C&I Customers	152,668	165,144	20,903	111,380	52,050	1,646,483	2,148,628
MWhs sold to Public Street and Highway Lighting	3,652	5,512	798	3,188	1,520	23,247	37,917
MWhs sold for resale	0			0	165,214	6,718,961	6,884,175
MWhs sold to all retail customers	554,265	626,419	157,994	808,401	657,703	7,403,568	10,208,350
Revenue from Residential Customers	\$17,827,911	\$28,495,742	\$8,272,296	\$12,951,193	\$57,136,618	\$325,911,619	\$450,595,379
Revenues from Small C&I Customers	\$21,565,075	\$17,152,500	\$9,473,787	\$19,433,277	\$27,116,065	\$297,195,552	\$391,936,256
Revenue from Large C&I Customers	\$12,815,828	\$13,015,044	\$1,869,949	\$4,659,129	\$4,870,048	\$150,581,576	\$187,811,574
Revenues from Public Street and Highway Lighting	\$740,514	\$1,028,831	\$187,046	\$152,665	\$340,758	\$4,819,716	\$7,269,530
Total Revenue from sales to all retail customers	\$52,949,328	\$59,692,117	\$19,803,078	\$37,196,264	\$89,463,489	\$778,508,463	\$1,037,612,739
Revenue from sales for resale	\$0	\$0	\$0	\$0	\$7,642,290	\$251,851,434	\$259,493,724
Total Operating Revenues	\$53,238,719	\$60,122,281	\$2,024,212	\$70,919,158	\$99,159,195	\$1,046,674,618	\$1,332,138,183
Operating Expenses	\$45,758,441	\$52,156,422	\$18,767,595	\$58,420,538	\$62,123,365	\$579,340,464	\$816,566,825
Net Operating Income	\$3,378,899	\$3,552,104	\$352,346	\$4,199,292	\$11,435,300	\$106,591,466	\$129,509,407
Net Income	\$1,520,097	\$1,408,122	\$149,360	\$2,989,622	\$6,787,598	\$62,896,606	\$75,751,405
Total Assets	\$154,492,231	\$69,610,336	\$12,470,977	\$100,903,579	\$249,159,438	\$1,980,087,496	\$2,566,724,057

Source: Fiscal Year 2002 NHPUC Annual Reports and FERC Form No. 1, 2002 Calendar Year

* As of December 2002, Concord Electric and E&H Electric Co. have merged to become Unitil Energy Services.



GAS & STEAM INDUSTRIES

Overview

The New England region continues to be one of the most active natural gas markets in the nation. In the last decade, New England has added three new pipeline systems, delivering gas from multiple supply points. These pipelines deliver gas from supply basins in the Gulf Coast, western Canada, and Eastern Canada (Sable Island Offshore). The fastest growing gas consumption sector, nationally and regionally, is gas for electric generation. Gas-fired electric generation accounted for less than 1% of New England's electric supply in 1980, increased to 16% in 1999 and is expected to grow to 43% in 2005.

Growing demand, particularly in the power generation sector, has spawned new growth in regional gas pipeline infrastructure. Two new gas fired power generation facilities have recently been built in New Hampshire and are major users of natural gas in the state. As a result, interstate pipeline system enhancements have increased capacity and strengthened the gas delivery system in New Hampshire and New England.

GAS

Transportation and Competition

New Hampshire has restructured its natural gas industry to make it economically feasible for all commercial and industrial (C&I) end-users in the state to choose between purchasing gas supply directly from third party suppliers (unregulated) and using their local gas utility (regulated) for "transportation" or

delivery service only, or purchasing gas supply from the utility.

C&I customers have had access to competitive markets through daily metered delivery service since 1993. In 2001, the Commission approved non-daily metered delivery service for C&I customers, thereby making metering charges more affordable for small and medium customers. When, or whether, to provide similar opportunities to residential customers will depend largely on the market response to the non-daily metered delivery service.

Competitive Natural Gas Marketer rules became effective December 28, 2002, establishing requirements for the registration of natural gas marketers and aggregators, as well as enforcement provisions and consumer protection standards. Eight third party suppliers have registered to operate as Competitive Natural Gas Suppliers in New Hampshire and are posted on the Commission's web site.

Northern Utilities Rate Increase

On September 19, 2001, Northern Utilities, Inc. (Northern), delivering natural gas service to approximately 25,000 customers in the seacoast area, filed for new rates that would increase an average customer's gas costs by 8.2%. On October 28, 2002, the Commission approved a 2.25% increase. The Order also set customer service standards and established fines in the event Northern does not achieve specific performance goals, and also required Northern to install a fully operational automated meter reading (AMR) system by September 1, 2003. The AMR system is expected to reduce bills



based on estimated meter reads, improve meter reading accuracy, reduce ongoing metering costs, allow for monthly rather than bi-monthly meter reading and eliminate the need to access customer premises for meter reading.

Cost of Gas and Hedging

While the Commission has encouraged the use of financial instruments for hedging gas supplies since the early 1990's and approved natural gas hedging policies and fixed price option programs in the late 1990's, the Commission encouraged and approved expanded hedging programs prior to the 2002/2003 winter period in anticipation of increasing gas costs. The hedging programs in place for the 2002/2003 winter period saved New Hampshire's natural gas customers nearly \$6.5 million and avoided severe price spikes felt elsewhere.

Natural Gas Energy Efficiency Programs

On December 31, 2002, the Commission approved certain natural gas energy efficiency programs. Similar programs, previously referred to as Demand Side Management programs, had been offered in New Hampshire from 1994 through 1999, but had been suspended following a program evaluation indicating that the conservation measures in place were no longer cost effective. New Hampshire's natural gas utilities, with sister companies offering cost effective programs in other states, proposed implementing similar measures in New Hampshire. Due to changes in the natural gas market, minimal start up costs and shared administrative costs, the measures were found to be cost effective and made available to New Hampshire customers on January 1, 2003. The Commission also directed the gas utilities to develop a Pay-As-You-Save energy efficiency program within six months, in an effort to create a non-rebate based program to maximize cost effectiveness and eliminate subsidies.

STEAM

Concord Steam is the only regulated steam utility in New Hampshire and serves approximately 120 commercial and industrial customers in Concord, the vast majority of which are heating customers. Concord Steam's customers include many State and Municipal buildings, as well as Concord High School.

Cost of Energy

On November 1, 2001, the Commission approved a Cost of Energy (COE) mechanism for Concord Steam. Concord Steam is required to file its projected energy costs for the upcoming year and calculate the rate necessary to recover those costs. Concord Steam is able to adjust the approved COE rate monthly, within 20% of the approved rate, as necessary to eliminate or reduce any projected year-end over or under recovery. Actual energy costs and revenues for the year are reconciled and any over or under recovery included in the calculation of the subsequent COE rate.

The COE mechanism addressed the problem of excessively high summer rates, as the very limited number of non-heating customers taking service during the summer months were paying steam costs related to system maintenance. The COE mechanism results in those system maintenance costs being spread evenly throughout the year and recovered equitably from all customers.

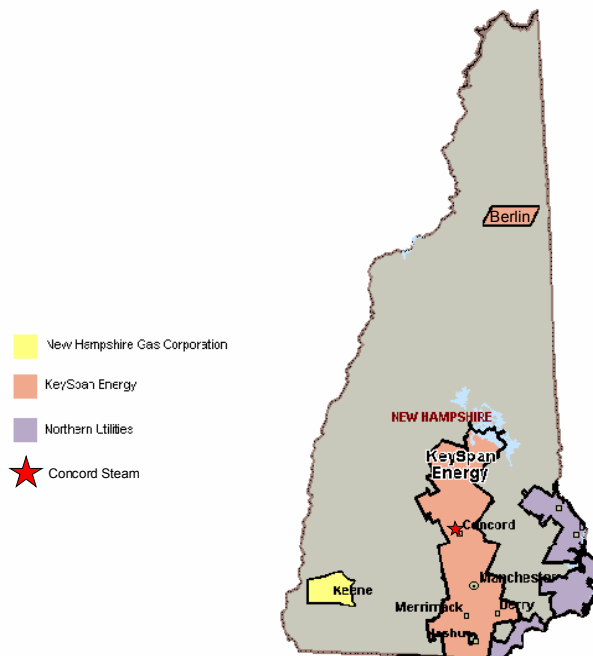
Rate Case

On March 28, 2003, the Commission approved Concord Steam delivery rates which are expected to increase customer bills by approximately 12%. The approved increase results in an overall rate of return well below those being granted other regulated utilities, but was designed to cover increased operating costs while maintaining a competitive rate with the alternative energy sources available in the Concord area.

Also approved in that proceeding was an arrangement whereby the cost of burning wood as an energy source is to be recognized, with those costs not to exceed what the cost of burning alternative fuels would have been. The arrangement insures that customers will not pay energy costs beyond what they would ordinarily have paid if Concord Steam did not burn wood, and any savings realized through the use of

wood will be immediately passed through to customers. Concord Steam had ceased using wood in 1996 when it became more economical to burn oil and natural gas, but recent increases in the price of those fuels relative to the price of wood makes wood a viable alternative and substantial savings could be realized. Concord Steam is expected to begin burning wood for the winter of 2003/2004.

Natural Gas, Propane and Steam Utilities in NH



Natural Gas, Propane and Steam Utilities in NH Communities Served

KeySpan Energy Delivery (Natural Gas)			Northern Utilities, Inc. (Natural Gas)			NH Gas Corp. (Propane)	Concord Steam Corp. (Steam)
Allenstown	Derry	Loudon	Atkinson	Hampton	Plaistow	Keene	Concord
Amherst	Franklin	Manchester	Dover	Hampton Beach	Portsmouth		
Auburn	Gilford	Merrimack	Durham	Hampton Falls	Rochester		
Bedford	Goffstown	Milford	East Kingston	Kensington	Rollinsford		
Belmont	Hollis	Nashua	East Rochester	Madbury	Salem		
Berlin	Hooksett	Northfield	Exeter	Newington	Seabrook		
Boscawen	Hudson	Pembroke	Gonic	North Hampton	Somersworth		
Bow	Laconia	Sanborton	Greenland	Pelham	Stratham		
Canterbury	Litchfield	Tilton					
Concord	Londonderry						

Natural/Propane Gas and Steam Utilities

Summary Data: Natural Gas, Propane Gas and Steam Utility Companies Operating in New Hampshire
Calendar Year 2002

Operating and Financial Statistics	KeySpan/ EnergyNorth Natural Gas, Inc. ^{1/}	Northern Utilities, Inc. ^{2/}	New Hampshire Gas Corp. ^{3/}	Operating and Financial Stats	Concord Steam Corp. ^{4/}
Bundled (Supply + Transportation) Customer Classes				Bundled Sales	
Residential				Public Authority	
Number of Customers	67,414	19,730	786	Number of Customers	13
Average Annual Therms per Customer	843	800	423	Avg. Annual MLb/Customer	8,625
Average Annual Revenue per Customer	\$744	\$948	\$599	Avg. Annual Revenue/Cust.	\$149,164
Revenue per Therm	\$0.883	\$1.185	\$1.416	Revenue per MLb	\$17,294
Commercial/Industrial/Public Authority				Comm./Ind	
Number of Customers	9,438	5,761	233	Number of Customers	74
Average Annual Therms per Customer	5,353	4,913	2,727	Avg. Annual MLb/Customer	927
Average Annual Revenue per Customer	\$4,095	\$4,609	\$3,187	Avg. Annual Revenue/Cust.	\$18,934
Revenue per Therm	\$0.765	\$0.938	\$1.169	Revenue per MLb	\$20,432
Unbundled (Transportation) Classes					
Commercial/Industrial				Cogen	
Number of Customers	144	3	0	Number of Customers	1
Average Annual Therms per Customer	179,857	5,773,797	0	Avg. Annual MLb/Customer	25,476
Average Annual Revenue per Customer	\$26,981	\$569,262	\$0	Avg. Annual Revenue/Cust.	\$225,485
Revenue per Therm	\$0.150	\$0.099	\$0.000	Revenue per MLb	\$8,851
Other Operating/Financial Statistics					
Total Customers	76,996	25,494	1,019	Total Customers	88
Total Operating Revenue	\$95,409,653	\$46,924,584	\$1,221,188	Total Operating Revenue	\$3,565,710
Total Operating Expenses	\$82,738,401	\$43,246,002	\$1,395,023	Total Operating Expenses	\$3,526,157
Net Income	\$12,671,252	\$3,678,582	-\$173,835	Net Income	\$39,553
Actual Rate of Return	9.35%	5.52%	-22.76%	Actual Rate of Return	1.12%
Total Plant Assets	\$194,967,349	\$86,002,311	\$1,460,533	Total Plant Assets	\$5,894,600

Source: Calendar Year Ended December 31, 2002 Annual Reports filed with the NHPUC.

Notes: Bundled customer classes purchase gas supply and transportation delivery service directly from the utility companies.
Unbundled Commercial/Industrial customer classes purchase gas supply from third party suppliers and utilize transportation delivery service from the gas utility companies.

1/ d/b/a KeySpan Energy Delivery New England

2/ Subsidiary of NiSource, Inc.

3/ Stand alone propane distribution system in Keene, subsidiary of New York State Electric and Gas

4/ Stand alone steam distribution system located in Concord, NH



WATER & SEWER INDUSTRIES

Overview

The Commission has continued to work through a variety of issues in the water industry this biennium. As in the past, many of the regulated utilities continued to struggle with the challenges of complying with the Safe Drinking Water Act (SDWA). The SDWA is the main federal law that ensures the quality of Americans' drinking water. Under SDWA, the Environmental Protection Agency (EPA) sets standards for drinking water quality and oversees the states, localities, and water suppliers who implement those standards. In 1996, Congress amended the Safe Drinking Water Act to emphasize sound science and risk-based standard setting, small water supply system flexibility and technical assistance, source water assessment and protection, public right-to-know, and water system infrastructure assistance through a multi-billion-dollar state revolving loan fund (SRF). In New Hampshire, the Department of Environmental Services (DES) administers the SRF program.

In the last several years, there has been increasing debate and discussion in New Hampshire about water resources. Significant drought conditions occurred in late 2001 and well into 2002 in most of the southern parts of the state, causing additional attention to be focused on water issues. In addition, a proposal for a water bottling plant in the town of Nottingham raised concerns among residents regarding control of water. The unsuccessful attempt by Philadelphia Suburban to acquire Pennichuck Water Works highlighted concerns relative to ownership of the state's water resources. The efforts of the municipalities served by the Pennichuck utilities to move ahead with a potential public acquisition of the water supply and distribution systems further

illustrates how issues relative to drinking water have become increasingly important to New Hampshire residents.

WATER CONSERVATION

Chapter 64 of the Laws of 2000 directed the Commission and DES to conduct a study of regulatory structures which encourage or discourage regional cooperation in drinking water resources management and water conservation, and report back to the Legislature with recommendations by June 29, 2001. The final report was released on August 14, 2001. The report made six recommendations for further state action, including establishment of a formal state policy for use and management of the state's water resources; consideration of legislation to allow the Commission to provide incentives for conservation efforts; establishment of a mechanism to support water-use restrictions; efforts to encourage State Revolving Loan Funds to be permitted to be used to support conservation programs; a joint DES/Commission public outreach initiative for water conservation; and establishment of a Commission proceeding open to all water utilities to consider innovative water utility ratemaking structures.

On December 31, 2001, the Commission opened a docket on water conservation, DW 01-253. The purpose of this docket was to consider ratemaking structures and rate design approaches that serve to conserve water, to consider the establishment of a pre-approved list of water conservation activities that are eligible for rate reimbursement, and to consider the establishment of efficiency programs such as PAYS or other such assistance to consumers.



Staff of the Commission convened several technical sessions with interested parties during 2002 in order to develop recommendations. On March 31, 2003, the Staff submitted a report which detailed the work completed during the docket and contained certain recommendations. Among those recommendations are: allowing utilities to develop seasonal rate structures to address high usage peaks during the summer months; institutionalizing the consideration of water conservation in water rate cases; allowing water utilities to implement penalties for violation of water use restrictions during periods of drought; and, allowing utilities to submit a list of conservation-related measures for pre-approval by the Commission such as public education and outreach expenses, water fixture retrofitting and replacement, and system metering, water loss and related expenses. Staff's report also discussed the future of water efficiency programs such as PAYS and the advantages and obstacles of such programs.

HAMPTON WATER WORKS SOLD TO AQUARION WATER OF CONNECTICUT

On October 31, 2001, Hampton Water Works Company (Hampton), and its corporate parent American Water Works Company, Inc. (AWWC) filed with the Commission a joint petition for approval for a change of control of Hampton. The Petitioners requested Commission approval of Aquarion's purchase of all outstanding common and preferred stock of Hampton owned by AWWC and by Greenwich Water Systems, Inc. (GWS), another subsidiary of AWWC. Hampton had been a wholly-owned subsidiary of GWS, and GWS was a wholly-owned subsidiary of AWWC. On January 4, 2002, the Petitioners filed an amendment to their Petition which requested to change the name of Hampton to "Aquarion Water Company of New Hampshire."

On February 8, 2002, a Stipulation Agreement was submitted by Aquarion, Hampton, the Town of Hampton, the Office of

the Consumer Advocate, and Commission Staff. Aquarion agreed not to seek a change in its rates for at least the remainder of 2002, and further agreed that it would not pass, either directly or indirectly, any acquisition costs or premiums onto its customers resulting from this transaction. In addition, Aquarion reserved the right, at the time of future rate cases, to request an opportunity to make a showing that its acquisition of Hampton Water Works has resulted in savings and benefits to customers. Other provisions of the Stipulation include a commitment from Aquarion to continue to identify and develop new sources of supply with an eye to eliminating the current moratorium on new connections and a commitment to implementation of a conservation program.

On March 1, 2002, the Commission approved the transfer of control of Hampton Water Works to Aquarion. Serving over 8,000 customers in Hampton, North Hampton and Rye, the company is now known as Aquarion Water Company of New Hampshire.

MANCHESTER WATER WORKS EXEMPTED FROM REGULATION

In August 2002, Manchester Water Works (MWW) filed a petition with the Commission seeking exemption from regulation as a public utility. Until that time, MWW had been regulated to the extent it served customers outside the City of Manchester at a rate higher than it charged Manchester customers. For many years, MWW has served customers in Hooksett, Auburn, Bedford, Goffstown and Londonderry at rates approximately 12% higher than those charged within Manchester. MWW's petition invoked RSA 362:4, III-a, which had recently been amended by the Legislature. Whereas a municipal utility could in the past charge rates outside its boundaries no higher than those charged inside its boundaries and avoid Commission regulation, the amendment now allows a rate premium of up to 15%. MWW therefore requested exemption from regulation with respect to its outside customers.



On March 14, 2003, the Commission issued an Order approving a Settlement Agreement between Commission Staff, the Office of the Consumer Advocate, Pennichuck Water Works, and MWW. That Agreement provided that MWW would be exempt from regulation by the Commission as a public utility with respect to its rates and charges applicable outside the City of Manchester. The exemption would apply as long as rates and charges are no higher than 15% above those charged to MWW's retail customers within Manchester.

Agreement which provided for a slight decrease in revenues for the Tioga division of 1.59%, and an increase in revenues for Gilford Village of 60.85%. The Agreement also called for the Tioga division to utilize a metered rate for the first time, consisting of a fixed quarterly charge of \$39.93 and a consumption charge of \$0.0525 per cubic foot of water. Gilford's rates were to be a fixed quarterly charge of \$14.87 and a consumption charge of \$0.02133 per cubic foot of water.

Pennichuck Water Works

On June 8, 2001, just before the start of this biennium, Pennichuck Water Works filed for an increase in its overall revenues of 20.09%, such increase to be effective July 8, 2001. The Company also requested a step adjustment, to be effective July 1, 2002, to recover the cost of certain post-test year plant additions. This step adjustment, if approved, would yield an additional 7.29% in revenues. Pennichuck serves 22,000 customers in the Nashua area and surrounding communities. The Company cited increased operating costs as well as necessary capital improvements as the primary reasons for the rate increase request. A Stipulation Agreement was presented by Pennichuck and Commission Staff, and that Agreement was ultimately approved by the Commission on March 1, 2002. The Agreement provided for a total increase in revenues of 14.43% which included a step adjustment for certain non-revenue producing plant additions placed in service after the test year. Because a cost of service study prepared by a consultant for the Company had shown that both private and public fire protection customers were already fully contributing to their cost of service, the rate increase was appropriately applied to all non-fire protection customers.

RATE PROCEEDINGS

During the biennium, the Commission considered and issued orders in four water rate proceedings:

White Rock Water Company

This water utility, which serves 96 customers in the Town of Bow, petitioned the Commission in November 2001 for an increase in its revenues of 32%. A Stipulation Agreement between the Company and Staff, which was approved by the Commission, provided for a total increase in revenues for White Rock of 14.88%. In addition, the Stipulation provides for application of the rate increase solely to the consumption charge, in order to encourage water conservation; requires new efforts at finding and bringing new sources of water online; and requires additional engineering efforts related to arsenic treatment and system pressures.

Tioga River Water Company

This water utility consists of two separate systems each with its own water rates. The Tioga River division serves 22 customers in Belmont, and the Gilford Village system serves 36 meters serving 63 end-users in Gilford. In its July 15, 2002 filing, the company requested an increase of 21.83% in its revenues in the Tioga system and 58.15% in Gilford Village. The Company and Staff presented a Stipulation

Lakes Region Water Company

On October 21, 2002, Lakes Region filed a petition to increase its water rates to its 1,118 customers by an average of 13.55%. Lakes Region provides water service in 13

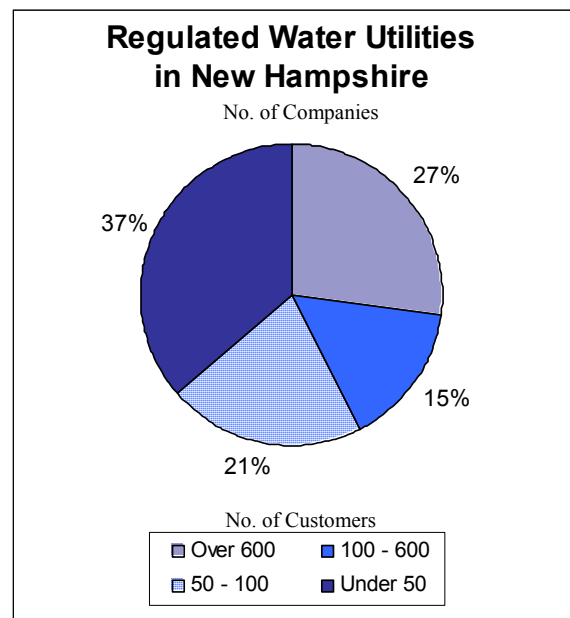
separate systems in a number of towns in central New Hampshire. Two of the systems involved, 175 Estates in Thornton and Hidden Valley Shores in Moultonborough, had been acquired earlier in 2002 from Consolidated Water Company. Lakes Region, in its filing, requested that these two new systems be integrated into its consolidated tariff, where one rate structure was applicable to all customers in all its systems. At a hearing on July 9, 2003, the Company and Commission Staff presented a Stipulation Agreement which settled all issues in the proceeding. The Agreement provided for the continuation of a single tariff rate for all systems except 175 Estates, which would continue with a separate rate due to its unique characteristics. Rates for the consolidated tariff systems would be increased by a total of 7.72%, while rates for the 175 Estates customers would be increased by a total of 73.75%. The Commission approved the Stipulation Agreement in an order issued shortly after the end of the biennium.

FINANCINGS

As part of the 1996 amendments to the Federal Safe Drinking Water Act, a Drinking Water State Revolving Loan Fund (SRF) was established to assist both public and privately-owned water systems in financing the costs of improvements needed to achieve compliance with SDWA requirements and to protect the public health objectives of the original act. The SRF program is administered by the New Hampshire Department of Environmental Services (DES) and provides low interest rate financing for 5, 10, 15 or 20-year periods as well as the potential for partial principal forgiveness for less affluent populations. After a Commission-regulated water utility submits an application to DES to participate in the program and is advised by DES as to the suitability of the project, the utility must request approval from the Commission under RSA 369 to borrow funds from the program. During this biennium, two utilities sought approval from the Commission for SRF borrowings. Pennichuck East Utility, Inc. sought to borrow \$462,000 for improvements at its Green Hills system in

Raymond, and Wildwood Water Company sought approval to borrow \$31,900 for improvements to its system in Albany.

Other water utilities seeking general financing approval were Lakes Region Water Company, seeking authorization to borrow \$136,000 to acquire the Hidden Valley Shores and 175 Estates systems and to complete improvements in its Tamworth Water Works system; Holiday Acres Water and Wastewater, requesting approval of a refinancing of its parent Holiday Acres Joint Venture Trust debt of \$3.7 million, part of which was used to purchase the utilities as well as the mobile home park; Hanover Water Works, requesting approval of a financing modification agreement with respect to debts in the amount of approximately \$1 million; and Tilton & Northfield Aqueduct Company, requesting authorization to refinance an existing loan of \$3.99 million.





SEWER

A rate filing by a regulated sewer utility begun in the previous biennium was completed in September 2001. Bodwell Waste Services Corp., a sewer utility serving approximately 420 customers in the City of Manchester, had filed a petition prior to the start of the biennium seeking a rate increase of 43%. A number of customers participated in the proceeding, with some concerns about various aspects of their service. In addition, a number of financial issues were involved as well, related to debts on the Company's books that existed from its inception, and the accounting treatment of an abandoned main. Ultimately, the Commission approved a Stipulation Agreement entered into by Bodwell, Commission Staff, and the Office of the Consumer Advocate presented at a hearing on September 10, 2001. That Agreement settled a number of outstanding issues with the Company, including the commitment of the Company to file for a financing authorization. The Agreement provided for a rate increase of 29.98%.

On February 11, 2002, Bodwell filed a request to expand its franchise area. The Company requested authority to provide service

to 20 rental townhouses to be built adjacent to its franchise area in a development known as Cohas Overlook. Although certain of Bodwell's existing customers expressed concern that, since previous expansions of the system had caused an upward pressure on rates, Bodwell indicated that this expansion did not involve capital investments on the part of the utility and were thus not going to cause increased operating expenses. The Commission agreed, and on May 22, 2002, approved the request of Bodwell to serve the Cohas Overlook development.

On March 26, 2003, Resort Waste Services, Inc., a sewer utility serving about 250 customers in the Bretton Woods area, filed a petition requesting the Commission to make a determination that Resort Waste is not a public utility, or, in the alternative, exempt Resort Waste from regulation under RSA 362:4. Following a prehearing conference, the Commission approved a procedural schedule which included the filing of briefs by the Company and Commission Staff. At the close of the biennium, the docket was pending.



SAFETY AND SECURITY

INSPECTIONS

The Safety Division is responsible for monitoring and inspecting construction and safety practices for all New Hampshire gas utilities. More than 200 inspections involving compliance with the Natural Gas Pipeline Safety Act were conducted during the biennium. The Division also monitors 13 natural gas inspection units and continues to employ rigorous inspections with a strong emphasis on training and education. The U.S. Department of Transportation, Office of Pipeline Safety, audits the Division's Safety Program each year and gave the Division high scores on its annual performance evaluation.

Recently, the Commission transferred the responsibility for electric safety to the Safety Division. Whenever there is electrical contact in which a person has received a shock, flash injury or other injury that resulted from contact with the utility's facilities, an investigation and report is completed.

UNDERGROUND DAMAGE PREVENTION

The Division is responsible for administering the Underground Utility Damage Prevention Program to ensure public safety and minimize damage to underground facilities. Third party excavation continues to be the number one cause of damages to underground facilities in New Hampshire and the rest of the country. Although the economy was sluggish during the biennium, New Hampshire experienced a 56% increase in calls into the

DigSafe center, reflecting strong construction activity. In the previous biennium, the Division processed 435 reports of damages to underground facilities. During the recent biennium, there was a 51% increase in reports to 657. In processing these reports, 213 informal conferences were generated.

The Division sponsored three DigSafe damage prevention seminars state-wide with over 500 participants in attendance. In addition, a seminar for operators of liquid propane facilities was sponsored to educate them on the damage prevention law as it applies to the majority of their facilities on private property. Included in this seminar were new federal regulations regarding Operator Qualifications which took effect October 2002.

EMERGENCY PREPAREDNESS AND SECURITY

In the wake of September 11th, the Commission created a Security Team headed by the Director of the Safety Division and staffed primarily by industry engineers and technical analysts. Through the security team, the Commission reviewed security plans for all major utilities. This was accomplished in coordination with the Department of Safety and the Bureau of Emergency Management.

The Division also had a major role in the Technical Assistance program to review New Hampshire's Emergency Operations Plan (EOP) and terrorism annex, as well as department and agency standard operating guidelines.



ENERGY CODE

Residential structures planned for communities without a building inspector must receive energy code approval from the Commission. During the past biennium, 2441 residential building applications were approved, an increase of 21% over the last biennium. The Consumer Affairs Division manages the state-wide energy building codes program.

With support from the Department of Energy (DOE) and the state's electric utilities, nine workshops were conducted on the commercial energy code and five workshops were conducted on the residential energy code during the past two years. The commercial code workshops covered HVAC, lighting, envelope, and code official training. The residential workshops focused on the energy code in the morning and energy efficient building practices in the afternoon. Building on the work begun in the last biennium, the Energy Conservation Coordinator continued to work with cable public access stations, providing video tapes of the commercial training to augment the residential training tapes provided previously. In addition to the Energy Code Workshops, the Commission's Energy Conservation Coordinator provided technical support to home owners, builders, architects, engineers, and others in the building community. In addition to numerous one-on-one sessions with members of the building community, the Energy Conservation Coordinator has worked onsite with 50 towns, companies and other interested groups.

In order to facilitate the energy code application process and provide better service to customers, the Commission has been working with DOE to develop an online energy code compliance option that will allow builders and homeowners to submit energy code applications via the internet. Testing is expected to begin in the fall of 2003.

During this past biennium, the Commission ordered electric utilities to develop and implement a series of energy efficiency programs including an Energy Star Homes Program. The Energy Codes Program and the Energy Star Homes Program are working together to increase awareness of energy efficiency building practices. While this program is still in the early stages, more than 250 Energy Star Homes were built in New Hampshire between January 1, 2003 and June 30, 2003 as compared to 247 homes built in all of 2002. Through the efforts of the Energy Conservation Coordinator and the new energy efficiency programs, awareness of the value of energy efficient building practices has increased, resulting in a quantifiable difference in the quality of new construction. For example, 2 x 6 walls with R-19 insulation values are now the standard in New Hampshire and, over the past year, there has been an increase of approximately 5% in the insulation values of windows.

LEGISLATION

The Public Utilities Commission monitors legislation that may have an effect on its operations or policies. In addition, the Commission provides the General Court with technical expertise, usually by working with the legislature's policy committees such as the House Science Technology and Energy Committee and the Senate Energy and Environment Committee. The following is a summary of major legislative acts by the General Court during the 2002 and 2003 legislative sessions.

ELECTRICITY

The legislature passed two major bills related to Public Service Company of New Hampshire (PSNH). The first, HB 436 (2003 Chapter 56), amended certain sections of RSA 369 and RSA 374-F to allow PSNH to purchase Connecticut Valley Electric Company (CVEC). The second bill, SB 170 (2003 Chapter 21), allows PSNH to retain its fossil and hydro generation assets until the end of the transition and default service period (April 30, 2006). In addition, the law establishes the price of default service as PSNH's "actual, prudent and reasonable costs of providing such power, as approved by the commission." Finally, the law directs the Legislative Oversight Committee on Electric Utility Restructuring to report to the Legislature by November 1, 2004, recommending legislation to address the provision of transition service and default service subsequent to April 30, 2006. The law requires the Committee to consider the volatility of wholesale and retail electricity prices in New Hampshire and throughout New England; the viability and number of competitive electric suppliers providing service in New Hampshire and New England; and the risks, costs and benefits associated with different options for all

electric utilities' continued provision of transition service.

The Legislature also enacted a housekeeping measure to clarify that all nuclear planning and response activities are the function of the Department of Safety and not the Commission (HB 233, 2003 Chapter 11). The bill vests the Department of Safety with this function with respect to the Seabrook Nuclear Power Plant, which is regulated by the federal Nuclear Regulatory Commission and is owned by Florida Light & Power, LCC.

In 2002, the Legislature enacted HB 718 (2002 Chapter 268) which created a voluntary "green" transition option for utilities with corresponding requirements for advertising and reporting the emissions associated with the power sources used. This option would allow utilities who use renewable energy, such as solar or wind, to offer the "green" power at a premium to customers who choose to buy from generation that is less damaging to the environment. In addition, this law includes a provision requiring the Commission to establish reporting requirements to inform all consumers on an ongoing basis of the environmental characteristics and the generation sources of the energy they use.

WATER

In 2003, the Legislature passed HB 361 (Chapter 281), a bill that permits municipalities to form regional water districts and obtain municipal bonding, and subjects the entity to regulation by the Commission. Under the law, a "regional water district" is any regional water district formed under RSA 53-A for the purpose of providing and assuring the provision of an adequate and sustainable supply of clean water.

In addition to permitting the regional water district to obtain municipal bonding for projects, this law gives regional water districts the same authority as municipal water districts to establish, expand, purchase or otherwise acquire plants for the manufacture and distribution of water for the use of the municipalities that are members of the regional water district. Under the proposal, the Commission would have jurisdiction over a regional water district to a limited degree. During the initial 4 years of operation, the Commission would have authority to review any rate changes that alter rates other than in a manner that uniformly impacts all customers. Upon request by any municipality, regional water districts would have to adopt and enforce quality of water service standards consistent with the commission's administrative rules.

TELECOMMUNICATIONS

A number of bills were passed in the 2003 legislative session which affect the telecommunications industry.

HB 91, (Chapter 7) extends the work of the Telecommunications Planning and Development Initiative and Advisory Committee until July 1, 2008. This Advisory Committee works with the Department of Resources and Economic Development to develop initiatives to assure telecommunication services throughout the state.

HJR 3, the continuing resolution which funded state government for the first three months of the 2004 fiscal year, was based on HB 2, the Capital Budget. Several provisions in the Capital Budget bill relate to telecommunications and are found in Chapter 212. The first provision creates a legislative committee to study the application of the communication services tax to the provision of Internet Services. The Committee's report is due November 1, 2003. Another provision extends the rate of the communication service tax of 7 percent until July 1, 2004. Finally, the law gives the Department of Safety the responsibility for the Enhanced 911 System, and makes the E911 Commission administratively attached and subject to the authority of the Department of Safety.

PRIMARY STATUTORY AUTHORITY

<u>RSA 38:1</u> et seq.	Commission authority over certain municipal utility operations and disputes between municipalities and public utilities.
<u>RSA 162-F:2</u> et seq.	Authority for the three Commissioners and the Chief Engineer to be members of the Site Evaluation Committee for Bulk Power Supply Facilities and for the Commission to hold joint hearings with the Committee. [Repealed 1991, 295:3, eff. Jan. 1, 1992.]
<u>RSA 301:53</u> et seq.	Jurisdiction of the Commission over cooperative marketing associations organized for the purpose of rural electrification.
<u>RSA 362:1-2, 4</u> et seq.	General jurisdiction of public utilities - telephone, electric, heat, power, water and pipelines.
<u>RSA 362-A:1</u> et seq.	Authority for the Commission to: set rates for the energy produced by limited energy producers, settle disputes, approve all contracts for retail sale, and order wheeling; prohibition against buyout of existing small power producers' rate orders.
<u>RSA 362-C:1</u> et seq.	Authority of the Commission to approve reorganization of PSNH and procedures for regulation of PSNH under the reorganization plan.
<u>RSA 363:1-21</u>	Enabling statute for the Commission, providing for appointment, removal, compensation, etc. of Commissioners, structure and composition of staff; authority for alternative forms of regulation; procedural and ethical guidelines for the operation of the Commission and authority to contract for power.
<u>RSA 363:22- 23</u>	Jurisdiction for the Commission to investigate interstate rates, fares, and charges and right to petition any federal government department for relief.
<u>RSA 363:28</u>	Authority for creation of Office of Consumer Advocate.
<u>RSA 363:30- 36</u>	Procedures to designate advocacy and advisory staff and assess costs if necessary.
<u>RSA 363-A:1</u> et seq.	Authority for the Commission to assess expenses of the Commission against certain utilities.
<u>RSA 363-B:1</u> et seq.	Procedure for termination of certain utility service.
<u>RSA 364:1</u> et seq.	Jurisdiction of the Commission to investigate the public need for a municipal utility system and to determine the feasibility of said plan.
<u>RSA 365:1- 21, 23, 25</u> et seq.	Procedures governing complaints against public utilities; investigations of public utilities; proceedings before the Commission; reparations, fees and costs as well as penalties and other sanctions for noncompliance.

RSA 366:1 et seq.	Authority of the Commission over the sale of utility securities to employees, over contracts between utilities and affiliates and over information disclosing interest in utilities and affiliates.
RSA 369:1 et seq.	Commission authority over public utilities and their financings - sale of securities, mortgages, short-term debt, long-term debt, etc.
RSA 369-B:1 et seq.	Electric rate reduction financing and Commission action et seq.
RSA 370:1-9	Authority of the Commission regarding service equipment of public utilities, including the determination of units of service, standards for meter accuracy and related enforcement procedures.
RSA 371:1 et seq.	Authority of the Commission over public utility condemnation proceedings and rights in public waters and lands.
RSA 374:1-5, 7-19, 21-28, 30 et seq.	General regulations governing the Commission, including general supervision of public utilities, procedures for utility's failure to perform duties; procedures for determining when competition in local exchange telephone service is in the public good; authorization for electric service pilot program; underground utility damage prevention system (Dig Safe).
RSA 374-A:1 et seq.	Authority of the Commission over electric utilities participating in power facilities to be placed in service in New England.
RSA 374-B et seq.	Authority of the Commission to approve issuance of municipal electric revenue bonds.
RSA 374-F:1 et seq.	Authority and procedures for the Commission to restructure electric utility industry and implement competition in retail electric service for all customers by the earliest date possible consistent with the public interest.
RSA 378:1 et seq.	Authority of the Commission and procedures regarding public utility rates, fares, charges and prices; prohibition against construction work in progress in rates; annual conservation and load management filings required; biennial least cost planning filings required unless waived by the Commission.
RSA 674:30	Authority of the Commission to exempt structures used by a public utility from municipal regulation.

OFFICE OF CONSUMER ADVOCATE

RSA 363:28 The Office of Consumer Advocate shall be an independent agency administratively attached to the Public Utilities Commission.

The Office of Consumer Advocate is an independent agency administratively attached to the Public Utilities Commission.

The Office of Consumer Advocate (OCA) was originally formed in 1976. The present structure of the OCA under RSA 363:28 was established on August 30, 1999, by several amendments to RSA 363:28. The basic changes on August 30, 1999 provided that the Consumer Advocate is henceforth to be an unclassified State employee position and that the Advisory Board is now statutory rather than voluntary. RSA 363:28 provides that the office represent the interests of residential ratepayers in any forum in which those interests might be effected. RSA 363:28 also provides for five permanent positions to serve those interests, four of which are classified. At this time, all positions are filled.

As a governmental agency of only five persons, it is not possible for the OCA to participate in each of the cases at the Commission, which can exceed 300 in any given year. Nor is it necessary for the OCA to participate in each of these cases since the Commission Staff is established to deal with this large volume of cases. Instead, the OCA attempts to keep informed on each case to the extent necessary to determine the cases which involve a significant precedent, or which will cause a particularly burdensome economic impact on residential ratepayers. The OCA then attempts to focus its energies in a manner that will serve to either sharpen the issues for the Commission or present a favorable case on behalf of residential ratepayers. It is important to note that the OCA can appeal decisions of the Commission whereas the Staff cannot. This means that in addition to appealing decisions based on evidence the OCA has offered, the

OCA can also appeal based on evidence any other party has provided, including the Commission's Staff, if appropriate and desirable.

In an effort to obtain an objective view of the needs and desires of residential ratepayers, the OCA has historically had a voluntary Advisory Board which has provided constructive direction by its members on the issues facing the Commission. The new Board is designed to achieve the same results and to reflect a broad cross-section of interests. The new nine member Board has members appointed as follows:

- Three members appointed by the Speaker of the House. One shall represent the interests of residential ratepayers; one shall represent the interests of the elderly; and one shall be a member of the public.
- Three members appointed by the Senate President. One shall represent the interests of residential ratepayers; one shall represent the interests of the disabled; and one shall represent environmental concerns.
- Three members appointed by the Governor and Council. One shall represent the interests of persons of low income; one shall represent the interests of small business owners; and one shall represent the interests of residents of low-income housing.

The Advisory Board's participation has been valuable in pointing out particular concerns of the various groups of ratepayers and methods to resolve competing interests of those residential customers. It has brought up questions, and provided insights on how to approach issues. With the current case load at a

point where it is impossible to keep up with daily demands and still remain reflective enough to prioritize and keep issues in perspective, the Advisory Board will continue to assist the OCA in reaching policy decisions and establishing priorities.

The following summary by utility industry gives some indication of the OCA's more important participation in the regulatory process on behalf of residential customers over the past two years. In addition to industry specific issues, the OCA has attempted to provide some input to the Legislature.

ELECTRIC INDUSTRY

Pursuant to RSA 374:F, the OCA has focused significant resources on completing the restructuring of the electric industry in order to achieve the dual objectives of effective competition and savings for residential ratepayers. In line with those objectives we have participated in the legislative, judicial and regulatory arenas on matters involving Connecticut Valley Electric Company (CVEC), Public Service Company of New Hampshire (PSNH), Granite State Electric Company (GSEC), the New Hampshire Electric Cooperative (NHEC) and Unitil.

In spite of considerable effort on behalf of the Commission, its Staff, the OCA, the Legislature and Governor, restructuring had been tied up in Federal District Court in Rhode Island for years without a hearing on the merits.

Over the last 2 years, progress has occurred through negotiations such that all electric ratepayers except those of CVEC now have choice.

The OCA in conjunction with other parties produced a settlement with Concord Electric Co. and Exeter and Hampton Electric Co. by which they merged into Unitil Energy Service (UES), completed a rate case, auctioned their existing power supply portfolio, provided customer choice, competitively selected a

transition service provider, and withdrew from the Federal litigation. Said services of Agreements have been approved by the Commission.

Currently the OCA is closely monitoring the bankruptcy of UES's transition service provider and portfolio acquirer, as well as UES's capitalization.

Despite years of negotiations to accomplish the benefits of RSA 374:F for CVEC's customers by the OCA and others, the log jam was finally broken by the proposed acquisition of CVEC by PSNH. This acquisition which the OCA was very involved in should provide choice and significant rate reductions to CVEC's customers by 2004.

The OCA was also involved in all significant Commission dockets with PSNH; i.e., transition service and stranded costs.

In order for restructuring to work effectively a truly competitive market for power must exist. For that reason the OCA has become increasingly more active in NEPOOL and FERC and became a member of NEPOOL effective December 31, 2001.

TELEPHONE INDUSTRY

The OCA has worked to achieve competitive choice in all aspects of this industry. This advocacy has led us to become involved in many dockets relating to the implementation of the 1996 Federal Telecommunications Act in New Hampshire ("96 Act").

In July 2001 the Commission issued its final SGAT order setting wholesale prices for various Verizon network elements to be leased to competitive telephone suppliers. In August 2001 Verizon filed for approval to offer out of state long distance service to New Hampshire telephone customers under section 271 of the 96 Act. In connection with that proceeding OCA participated in the 271 proceeding as well as a docket to formulate wholesale performance

measures for Verizon's service to its wholesale customers. Although the OCA opposed Verizon's entry into the out of state long distance market, based upon numerous competitive local exchange carrier ("CLEC") complaints of unfair and discriminatory treatment by Verizon, the Commission approved Verizon's entry into the out of state long distance market in June 2002.

OCA participated in other wholesale issues in dockets involving additional leased elements on the Verizon network and pricing revisions to the SGAT as well as issues involving procedures for CLEC migration of customers to Verizon and other CLECs.

The OCA represented the interests of residential ratepayers in a settlement establishing uniform quality of service reporting requirements for incumbent telephone companies ("ILEC's") as well as CLEC's. These service quality reports are designed to be easy for consumers to understand.

The OCA supported legislation in New Hampshire establishing a do not call list for New Hampshire customers who do not wish to receive telephone solicitations. The New Hampshire do not call legislation was passed and is designed to fit with the recently passed federal legislation. Non-profit organization, political campaigns, and companies with an existing relationship with telephone customers are exempt from the New Hampshire and federal do not call legislation.

The OCA urged the Commission to initiate a rate case for Verizon. In response the Commission arranged for an audit of Verizon which was completed in September of 2002. The audit identified numerous issues for further investigation. OCA has participated in two dockets resulting from the audit. The first was to set a rate of return for Verizon in New Hampshire. The second, which is still ongoing, is to determine whether profits from the Verizon yellow pages activities should be attributed to Verizon's regulated telephone services in New Hampshire as was the case prior to 2000.

With regard to independent telephone companies, OCA participated in a docket concerning Wilton and Hollis Telephone company and involving numerous reporting errors and omissions. That docket culminated in the sale of Wilton and Hollis to TDS Telecom. Kearsarge Telephone Company, also owned by TDS Telecom, filed a petition for alternative regulation. The OCA Advisory Board set forth conditions precedent to approval of any alternative regulatory scene. Based on failure to meet these conditions the OCA has opposed alternative regulation. If the request for alternative ratemaking treatment is granted, Kearsarge would be the first telephone company in New Hampshire to adopt an alternative form of regulation.

GAS INDUSTRY

The OCA has been quite active in dockets related to the Cost of Gas for New Hampshire's two natural gas utilities. Because of the significant volatility in natural gas costs, the OCA has consistently advocated measures to stabilize those costs. Those measures took two approaches; one is to have the utility offer a fixed price option to customers which Keyspan (ENGI) does, and also having utilities take measures to hedge prices thus reducing CGA price volatility which both utilities do. The OCA has also spent considerable resources on the development of cost effective gas conservation programs.

WATER INDUSTRY

Recognizing that water plays a critical role in the standard of living for each and every New Hampshire citizen the OCA has participated in an investigation, led by the Department of Environmental Services as required by new Legislation, to examine the states' use of water resources.

The OCA's participation at the Commission has also addressed issues ranging from rate increases to Main Extension policies.

Such diversity in the range of issues facing the water industry and its customers has been a challenge for the OCA considering its limited resources and we have reduced our level of participation at the Commission in this area by focusing on issues which demand the most immediate attention.

The future of the water utility industry in New Hampshire, as far as rates and service are concerned, is in our opinion, uncertain. Typically water systems are small in size and lack the resources to adequately address the formidable challenges of meeting the ever increasing demands of customers. Despite these challenges, the OCA will continue to contribute,

as resources permit, to the process of resolving issues as they develop.

Of particular concern to the OCA is making sure ratepayers do not see an erosion in their quality of service due to mergers and acquisitions. Because of those concerns we participated in the proposed acquisition of Pennichuck W.W. and of Hampton W.W. Similarly we were heavily involved in the request of Manchester W.W. to eliminate Commission regulation for their out of town customers.



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